EMC CORP
Form 10-Q/A
August 10, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

Amendment No. 1

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2006

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For transition period from ______ to ______

Commission File Number 1-9853

EMC CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts	**04-2680009**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
176 South Street	**01748**

Hopkinton, Massachusetts
(Address of principal executive offices) (Zip Code)
(508) 435-1000

(Registrant s telephone number, including area code)

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

The number of shares of common stock, par value $.01 per share, of the registrant outstanding as of June 30, 2006 was 2,298,487,844.

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Amendment No. 1 to the Quarterly Report on Form 10-Q for the

Quarterly Period Ended June 30, 2006

EXPLANATORY NOTE

We are filing this Amendment No. 1 to our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006, as filed with the Securities and Exchange Commission on August 4, 2006, to correct the following typographical errors: p. 12 Amounts charged to the accrual for the Six Months Ended June 30, 2006 should read (58,707), p. 14 end of last sentence under *Employee Stock Purchase Plan* should read $52.6 million and $49.2 million, respectively, p. 17 Total Stock-Based Compensation for the Six Months Ended June 30, 2006 in Cost of product sales should read 22,964, p. 23 Consolidated Cost of Sales for the Six Months Ended June 30, 2006 should read 2,433,875, p. 24 last sentence in the third paragraph under *Defined Benefit Pension Plans* should read At June 30, 2006, the Pension Plan held $0.3 million of our common stock, p. 30 % Change for the Three Months Ended June 30, 2006 and June 30, 2005 for the Total cost of revenue should read 11.8, p. 31 $ Change for the Six Months Ended June 30, 2006 and June 30, 2005 for Net income should read $(11.7), p. 36 the next to last sentence in the second paragraph under *Financial Condition* should read Net purchases and maturities of investments were $266.1 and $115.0 for the six months ended June 30, 2006 and 2005, respectively and p. 37 next to last sentence in the first paragraph should read Under the terms of the agreement, we will pay $28.00 per share in cash in exchange for each share of RSA for an aggregate purchase price of approximately $2,100.0, net of RSA s existing cash balance. In addition, in Management s Discussion and Analysis of Financial Condition and Results of Operations, we have adjusted various numbers due to rounding and clarified in two instances that a period over period percentage change was not measurable.

Other than the changes referred to above, all other information in our Form 10-Q described above remains unchanged. This amendment does not reflect events occurring after the original filing of such Form 10-Q and does not modify or update the disclosures in any way other than to correct the typographical errors described above.

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FACTORS THAT MAY AFFECT FUTURE RESULTS

This Quarterly Report on Form 10-Q contains forward-looking statements, within the meaning of the Federal securities laws, about our business and prospects. The forward-looking statements do not include the impact of the definitive agreement to acquire all of the outstanding capital stock of RSA Security Inc., which we announced on June 29, 2006, or of any other potential mergers, acquisitions, divestitures 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 sim expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these words. Our future results may differ materially from our past results and from those projected in the forward-looking statements due to various uncertainties and risks, including those described in Item 1A of Part II (Risk Factors). We disclaim any obligation to update any forward-looking statements contained herein after the date of this Quarterly Report.

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PART I

FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

EMC CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share amounts)

(unaudited)

ASSETS	**June 30, 2006**	**December 31, 2005**
Current assets:		
Cash and cash equivalents	$ 1,560,384	$ 2,322,370
Short-term investments	1,237,614	1,615,495
Accounts and notes receivable, less allowance for doubtful accounts of $36,109 and $38,126	1,264,519	1,405,564
Inventories	763,771	724,751
Deferred income taxes	348,122	326,318
Other current assets	239,963	179,478
Total current assets	5,414,373	6,573,976
Long-term investments	3,487,049	3,417,589
Property, plant and equipment, net	1,836,399	1,754,035
Intangible assets, net	555,726	563,024
Other assets, net	649,389	598,252
Goodwill, net	4,114,928	3,883,507
Total assets	$ 16,057,864	$ 16,790,383
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 616,686	$ 583,756
Accrued expenses	1,245,708	1,279,857
Income taxes payable	420,334	645,694
Deferred revenue	1,269,613	1,164,551
Total current liabilities	3,552,341	3,673,858
Deferred revenue	690,773	640,598
Deferred income taxes	122,335	175,192
Long-term convertible debt		126,963
Other liabilities	116,740	108,342
Commitments and contingencies		
Stockholders equity:		
Series 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 2,298,488 and 2,384,147 shares	22,985	23,841
Additional paid-in capital	4,506,133	5,867,076
Deferred compensation		(332,311)
Retained earnings	7,122,060	6,570,511
Accumulated other comprehensive loss, net	(75,503)	(63,687)

Total stockholders equity	11,575,675	12,065,430
Total liabilities and stockholders equity	$ 16,057,864	$ 16,790,383

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

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EMC CORPORATION

CONSOLIDATED INCOME STATEMENTS

(in thousands, except per share amounts)

(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	June 30, 2006	2005	June 30, 2006	2005
Revenues:				
Product sales	$ 1,833,598	$ 1,688,330	$ 3,682,128	$ 3,308,833
Services	740,925	656,485	1,443,082	1,279,113
	2,574,523	2,344,815	5,125,210	4,587,946
Costs and expenses:				
Cost of product sales	884,741	813,080	1,802,638	1,611,619
Cost of services	331,790	275,093	631,237	545,464
Research and development	299,429	253,342	582,918	487,639
Selling, general and administrative	782,016	642,654	1,530,240	1,258,400
Restructuring and other special charges	12,024		10,830	968
Operating income	264,523	360,646	567,347	683,856
Investment income	61,713	43,494	123,516	86,489
Interest expense	(621)	(1,983)	(2,631)	(4,016)
Other income (expense), net	479	(1,069)	3,195	(3,373)
Income before taxes	326,094	401,088	691,427	762,956
Income tax provision	47,001	107,724	136,506	199,758
Income before cumulative effect of a change in accounting principle	279,093	293,364	554,921	563,198
Cumulative effect of a change in accounting principle, net of tax benefit of $0, $0, $808 and $0			(3,372)	
Net income	$ 279,093	$ 293,364	$ 551,549	$ 563,198
Net income per weighted average share, basic:				
Income before cumulative effect of a change in accounting principle	$ 0.12	$ 0.12	$ 0.24	$ 0.24
Cumulative effect of a change in accounting principle				
Net income	$ 0.12	$ 0.12	$ 0.24	$ 0.24
Net income per weighted average share, diluted:				
Income before cumulative effect of a change in accounting principle	$ 0.12	$ 0.12	$ 0.23	$ 0.23
Cumulative effect of a change in accounting principle				
Net income	$ 0.12	$ 0.12	$ 0.23	$ 0.23
Weighted average shares, basic	2,306,457	2,391,826	2,328,360	2,393,658

Weighted average shares, diluted	2,341,785	2,442,359	2,371,301	2,442,897

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

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EMC CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the Six Months Ended	
	June 30, 2006	June 30, 2005
Cash flows from operating activities:		
Cash received from customers	$ 5,423,035	$ 4,722,463
Cash paid to suppliers and employees	(4,124,686)	(3,761,901)
Dividends and interest received	134,906	111,090
Interest paid	(2,696)	(5,107)
Income taxes paid	(401,357)	(37,721)
Net cash provided by operating activities	1,029,202	1,028,824
Cash flows from investing activities:		
Additions to property, plant and equipment	(316,120)	(253,652)
Capitalized software development costs	(96,074)	(82,536)
Purchases of short and long-term available for sale securities	(3,486,712)	(4,822,195)
Sales and maturities of short and long-term available for sale securities	3,752,790	4,937,156
Business acquisitions, net of cash acquired	(296,730)	(262,125)
Other	(13,910)	(2,100)
Net cash used in investing activities	(456,756)	(485,452)
Cash flows from financing activities:		
Issuance of common stock	129,897	136,845
Purchase of treasury stock	(1,375,608)	(270,906)
Excess tax benefits from stock-based compensation	9,727	
Payment of long-term and short-term obligations	(127,396)	(88)
Proceeds from long-term and short-term obligations	85	192
Net cash used in financing activities	(1,363,295)	(133,957)
Effect of exchange rate changes on cash and cash equivalents	28,863	(33,775)
Net (decrease) increase in cash and cash equivalents	(761,986)	375,640
Cash and cash equivalents at beginning of period	2,322,370	1,476,803
Cash and cash equivalents at end of period	$ 1,560,384	$ 1,852,443
Reconciliation of net income to net cash provided by operating activities:		
Net income	$ 551,549	$ 563,198
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of a change in accounting principle	3,372	
Depreciation and amortization	364,641	316,516
Non-cash restructuring and other special charges	12,410	3,100

Stock-based compensation expense	201,938	34,393
Provision for doubtful accounts	866	3,748
Deferred income taxes, net	(67,065)	24,312
Tax benefit from stock options exercised		30,659
Excess tax benefits from stock-based compensation	(9,727)	
Other	14,977	24,618
Changes in assets and liabilities, net of acquisitions:		
Accounts and notes receivable	147,483	22,750
Inventories	(19,999)	(167,209)
Other assets	(72,514)	(10,630)
Accounts payable	22,884	(62,700)
Accrued expenses	(76,886)	37,416
Income taxes payable	(198,018)	107,756
Deferred revenue	149,476	108,019
Other liabilities	3,815	(7,122)
Net cash provided by operating activities	$ 1,029,202	$ 1,028,824
Non-cash activity:		
Issuance of stock options exchanged in business combinations	$ 7,500	$ 37,360

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

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EMC CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	June 30, 2005	June 30, 2006	2005
Net income	$ 279,093	$ 293,364	$ 551,549	$ 563,198
Other comprehensive income (loss), net of taxes:				
Foreign currency translation adjustments, net of taxes (benefit) of $0, $(8,797), $0 and $(10,716)	12,551	(9,857)	13,339	(14,114)
Changes in market value of derivatives, net of taxes (benefit) of $(3), $259, $(63) and $278	(24)	2,335	(568)	2,535
Changes in market value of investments, net of taxes (benefit) of $(2,512), $8,844, $(2,408) and $395	(11,132)	26,178	(24,587)	(4,689)
Other comprehensive income (loss)	1,395	18,656	(11,816)	(16,268)
Comprehensive income	$ 280,488	$ 312,020	$ 539,733	$ 546,930

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

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Company

EMC Corporation (EMC) and its subsidiaries develop and deliver open, flexible information infrastructures, offering a wide range of systems, software, services and solutions that help organizations extract greater value from their information and get the most out of their IT assets.

EMC develops solutions for customers to manage information intelligently based on its changing value to an organization over time. With a strategy known as *information lifecycle management*, we help individuals and organizations store, manage, protect, secure, move and share information to collaborate, solve problems, save money, exploit new opportunities, comply with regulations and policies and improve operational results. Information lifecycle management simultaneously lowers the cost and reduces the risk of managing information, no matter what format it is in documents, images or e-mail as well as the data that resides in databases.

We also provide specialized *virtual infrastructure* and *resource management* software. Virtual infrastructure helps organizations respond to changing IT requirements by dynamically altering their computing and storage environments with flexible virtualization technologies. Resource management allows organizations to better understand, manage and automate the operation of their information infrastructure.

General

The accompanying interim consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. These statements include the accounts of EMC and its wholly-owned subsidiaries. All intercompany transactions have been eliminated in consolidation. Certain information and footnote disclosures normally included in our annual consolidated financial statements have been condensed or omitted. Accordingly, these interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2005 which are contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the SEC) on March 6, 2006.

The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for any future period or the entire fiscal year. The interim consolidated financial statements, in the opinion of management, reflect all adjustments (consisting of normal recurring accruals) necessary to fairly state the results as of and for the three and six month periods ended June 30, 2006 and 2005.

New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN No. 48). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FAS No. 109, Accounting for Income Taxes. FIN No. 48 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. FIN No. 48 will be effective for us beginning in 2007. We are currently evaluating the potential impact of FIN No. 48 on our financial position and results of operations.

2. Business Acquisitions and Goodwill

Definitive Agreement to Acquire RSA Security Inc.

As of June 29, 2006, we entered into a definitive agreement to acquire all of the outstanding capital stock of RSA Security Inc. (RSA). Under the terms of the agreement, we will pay $28.00 per share in cash in exchange for each share of RSA for an aggregate purchase price of approximately $2.1 billion, net of RSA s existing cash balance. RSA provides technologies to secure

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

information no matter where it resides or travels inside or outside of an organization and throughout its lifecycle. With industry-leading authentication, access control, and encryption solutions, RSA helps organizations of all sizes ensure the authenticity and protection of people, information and transactions. The acquisition will add industry-leading identity and access management solutions and encryption and key management software to our product offerings. The acquisition is expected to be completed late in the third quarter or early in the fourth quarter of 2006, subject to customary closing conditions and regulatory approvals.

Acquisitions

In May 2006, we acquired all of the outstanding capital stock of Kashya, Inc. (Kashya), a provider of enterprise-class data replication and data protection software. Kashya will allow us to expand our software portfolio for replication across heterogeneous environments.

In May 2006, we acquired all of the outstanding capital stock of Interlink Group, Inc. (Interlink), an IT professional services firm that specializes in application development, IT infrastructure, enterprise integration, enterprise content management and customer relationship management for Microsoft environments. The acquisition of Interlink strengthens and expands our growing Microsoft solutions practice.

In June 2006, we acquired all of the outstanding capital stock of nLayers Ltd. (nLayers), a leader in application discovery and mapping software. The acquisition further expands our resource management portfolio, enabling automated comprehensive root-cause and impact analysis across all technology domains, including networks, applications and storage.

In June 2006, we acquired the assets of ProActivity Software Solutions Ltd. (ProActivity), a provider of content management software for business process management. ProActivity provides tools to monitor, analyze and optimize business processes. The acquisition further expands the EMC Documentum product suite s process modeling, process execution and process integration capabilities.

In June 2006, our VMware subsidiary acquired all of the outstanding capital stock of Akimbi Systems, Inc. (Akimbi), a developer of software that builds upon and leverages virtualization technology to improve the efficiency and effectiveness of enterprise application development operations and the IT organizations that support them. Through the acquisition of Akimbi, we intend to enhance our capabilities for virtualizing information by providing virtualization solutions to the development and test environments.

The aggregate purchase price, net of cash received for these acquisitions was $287.8 million, which consisted of $274.8 million of cash, $7.5 million in fair value of our vested stock options issued in exchange for the acquirees stock options and $5.5 million of transaction costs, which primarily consisted of fees paid for legal and financial advisory services.

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

Developed technology (weighted-average useful life of 5.1 years)	$ 47,747
Customer/service relationships (weighted-average useful life of 6.6 years)	3,200
Tradenames and trademarks (weighted-average useful life of 0.5 years)	26
Non-competition agreements (weighted-average useful life of 3.0 years)	200
Backlog (weighted-average useful life of 2.0 years)	919
Acquired IPR&D	12,410
Total intangible assets	$ 64,502

The fair value of intangible assets was primarily based upon the income approach. The rates used to discount the net cash flows to their present values for each acquisition were based upon weighted average costs of capital that ranged from 5.3% - 25.0%. The discount rates were determined after consideration of market rates of return on debt and equity capital, the weighted average returns on invested capital and the risk

associated with achieving forecasted sales related to the technology and assets acquired. The total weighted average amortization period for the intangible assets is 5.1 years. The intangible assets are being amortized based upon the pattern in which the economic benefits of the intangible assets are being utilized.

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Of the $64.5 million of acquired intangible assets, $12.4 million was allocated to IPR&D which was written off at the respective date of acquisition because the IPR&D had no alternative uses and had not reached technological feasibility. The write-off is included in restructuring and other special charges in our income statement. The value assigned to IPR&D was determined utilizing the income approach by determining cash flow projections relating to identified IPR&D projects. The stage of completion of each in-process project was estimated to determine the discount rates to be applied to the valuation of the in-process technology. Based upon the level of completion and the risk associated with in-process technology, we applied discount rates that ranged from 22.0% - 35.0% to value the IPR&D projects acquired.

The combined effect of the above transactions to EMC s revenue, net income and basic and diluted net income per weighted average share as if the acquisitions occurred on January 1, 2005 is immaterial for the three and six months ended June 30, 2006 and 2005, respectively. As a result, pro forma information for these acquisitions is not presented.

Goodwill recognized in these transactions totaled $234.4 million, of which $6.3 million is deductible for income tax purposes. Changes in the carrying amount of goodwill, net, on a consolidated basis and by segment for the three and six months ended June 30, 2006 consist of the following (table in thousands):

	EMC Information Storage Products	EMC Multi-Platform Software	EMC Services	VMware	Other Businesses	Total
Balance, April 1, 2006	$ 552,766	$ 2,786,528	$ 20,548	$ 522,334	$	$ 3,882,176
Goodwill acquired	45,482	93,676	18,772	76,504		234,434
Tax deduction from exercise of stock options		(659)		(69)		(728)
Finalization of purchase price allocations		(13)	(659)	(282)		(954)
Balance, June 30, 2006	$ 598,248	$ 2,879,532	$ 38,661	$ 598,487	$	$ 4,114,928

	EMC Information Storage Products	EMC Multi-Platform Software	EMC Services	VMware	Other Businesses	Total
Balance, January 1, 2006	$ 552,766	$ 2,789,126	$ 19,098	$ 522,517	$	$ 3,883,507
Goodwill acquired	45,482	103,432	18,772	76,504		244,190
Tax deduction from exercise of stock options		(7,792)		(225)		(8,017)
Finalization of purchase price allocations		(5,234)	791	(309)		(4,752)
Balance, June 30, 2006	$ 598,248	$ 2,879,532	$ 38,661	$ 598,487	$	$ 4,114,928

3. Investments

Our investments are comprised primarily of debt securities that are classified as available for sale and recorded at their fair market values. Investments with remaining maturities of less than 12 months from the consolidated balance sheet date are classified as short-term investments. Investments with remaining maturities of more than 12 months from the consolidated balance sheet date are classified as long-term investments.

Unrealized gains and temporary losses on investments classified as available for sale are included as a separate component of stockholders equity, net of any related tax effect. Realized gains and losses are reflected in the income statement in investment income. As of June 30, 2006, we had total short and long-term investments of $4.7 billion.

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Unrealized losses on investments at June 30, 2006 by investment category and length of time the investment has been in a continuous unrealized loss position are as follows (table in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government and agency obligations	$ 1,016,609	$ (11,556)	$ 367,570	$ (9,652)	$ 1,384,179	$ (21,208)
U.S. corporate debt securities	571,322	(6,767)	212,675	(5,277)	783,997	(12,044)
Asset and mortgage-backed securities	566,555	(7,492)	391,356	(10,208)	957,911	(17,700)
Bank loans	192,505	(892)	2,193	(23)	194,698	(915)
Municipal obligations	766,601	(8,871)	9,603	(411)	776,204	(9,282)
Foreign debt securities	5,893	(102)	36,629	(605)	42,522	(707)
Total	$ 3,119,485	$ (35,680)	$ 1,020,026	$ (26,176)	$ 4,139,511	$ (61,856)

We evaluate investments with unrealized losses to determine if the losses are other-than-temporary. The gross unrealized losses related to bank loans were due to changes in credit spreads. All other gross unrealized losses were due to changes in interest rates. We have determined that the gross unrealized losses at June 30, 2006 are temporary. In making this determination, we considered the loss as a percentage of the investments cost, the financial condition and near-term prospects of the issuers, the magnitude of the losses compared to the investments cost, the length of time the investments have been in an unrealized loss position and our ability to hold the investments to maturity.

4. Inventories

Inventories consist of (table in thousands):

	June 30, 2006	December 31, 2005
Purchased parts	$ 72,556	$ 56,803
Work-in-process	396,717	491,474
Finished goods	294,498	176,474
	$ 763,771	$ 724,751

5. Property, Plant and Equipment

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

	June 30, 2006	December 31, 2005
Furniture and fixtures	$ 160,592	$ 168,495
Equipment	2,489,946	2,249,054
Buildings and improvements	925,356	908,559
Land	108,533	105,906
Building construction in progress	118,251	108,524
	3,802,678	3,540,538
Accumulated depreciation	(1,966,279)	(1,786,503)
	$ 1,836,399	$ 1,754,035

Building construction in progress and land owned at June 30, 2006 include $93.1 million and $6.0 million, respectively, of facilities not yet placed in service that we are holding for future use.

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

6. Accrued Expenses

Accrued expenses consist of (table in thousands):

	June 30, 2006	December 31, 2005
Salaries and benefits	$ 486,110	$ 477,361
Product warranties	235,544	206,608
Restructuring (See Note 10)	106,195	154,613
Other	417,859	441,275
	$ 1,245,708	$ 1,279,857

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 and specific identification of systems requirements. Upon expiration of the initial warranty, we may sell additional maintenance contracts to our customers. Revenue from these additional maintenance contracts is deferred and recognized ratably over the service period. The following represents the activity in our warranty accrual for our standard product warranty (table in thousands):

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Balance, beginning of the period	$ 234,549	$ 209,595	$ 206,608	$ 180,758
Current year accrual	32,695	35,382	87,643	85,042
Amounts charged to the accrual	(31,700)	(27,185)	(58,707)	(48,008)
Balance, end of the period	$ 235,544	$ 217,792	$ 235,544	$ 217,792

The current quarter provision includes amounts accrued for systems at the time of shipment, adjustments within the quarter for changes in estimated costs for warranties on systems shipped in the quarter and changes in estimated costs for warranties on systems shipped in prior years. It is not practicable to determine the amounts applicable to each of the components. The provision for the three and six months ended June 30, 2006 includes $1.1 million and $23.1 million respectively associated with stock-based compensation expense as a result of the adoption of Financial Accounting Standard No. 123R, Share-Based Payment (FAS No. 123R). Included in the provision for the six months ended June 30, 2006 is $22.0 million which represents the cumulative effect adjustment recorded in connection with the adoption of FAS No. 123R.

7. Convertible Debt

On April 3, 2006, we redeemed the outstanding $125.0 million 4.5% Senior Convertible Notes due April 1, 2007 (the Notes) that we assumed in connection with the acquisition of Documentum in December 2003 for $126.1 million, based on a contractual redemption price of 100.9%.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

8. 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, except per share amounts):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	June 30, 2005	2006	June 30, 2005
Numerator:				
Net income, as reported, basic	$ 279,093	$ 293,364	$ 551,549	$ 563,198
Adjustment for interest expense on convertible debt, net of taxes		643	643	1,286
Net income - diluted	$ 279,093	$ 294,007	$ 552,192	$ 564,484
Denominator:				
Basic weighted average common shares outstanding	2,306,457	2,391,826	2,328,360	2,393,658
Weighted common stock equivalents	35,328	41,477	33,885	40,183
Assumed conversion of convertible debt		9,056	9,056	9,056
Diluted weighted average shares outstanding	2,341,785	2,442,359	2,371,301	2,442,897

Options to acquire 194.9 million and 188.6 million shares of our common stock for the three and six months ended June 30, 2006, respectively, and options to acquire 64.1 and 81.8 million shares of our common stock for the three and six months ended June 30, 2005, respectively were excluded from the calculation of diluted earnings per share because of their antidilutive effect. The effect of our senior convertible debt assumed in connection with our acquisition of Documentum on the calculation of diluted net income per weighted average share for the three and six months ended June 30, 2006 and 2005 was calculated using the if converted method. We redeemed all of the outstanding senior convertible debt on April 3, 2006. See Note 7 for further information.

9. Stock-Based Compensation

Equity Plans

The EMC Corporation 2003 Stock Plan (the 2003 Plan) provides for the grant of stock options, stock appreciation rights, restricted stock and restricted stock units. The exercise price for a stock option shall not be less than 100% of the fair market value of our common stock on the date of grant. Options generally become exercisable in annual installments over a period of three to five years after the date of grant and expire ten years after the date of grant. Incentive stock options will expire no later than ten years after the date of grant. Restricted stock is common stock that is subject to a risk of forfeiture or other restrictions that will lapse upon satisfaction of specified conditions. Restricted stock units represent the right to receive shares of common stock in the future, with the right to future delivery of the shares subject to a risk of forfeiture or other restrictions that will lapse upon satisfaction of specified conditions. Awards of restricted stock or restricted stock units that vest only by the passage of time will not vest fully in less than three years after the date of grant. The 2003 Plan allows us to grant up to 200.0 million shares of common stock, no more than 60.0 million shares of which may be issued pursuant to awards of restricted stock or restricted stock units.

In addition to the 2003 Plan, we have three employee stock option plans (the 1985 Plan , the 1993 Plan , and the 2001 Plan). Under the terms of each of the three plans, the exercise price of incentive stock options issued must be equal to at least the fair market value of our common stock on the date of grant. In the event that non-qualified stock options are granted under the 1985 Plan, the exercise price may be less than the fair

market value at the time of grant, but in the case of employees not subject to Section 16 of the Securities Exchange Act of 1934, not less than par value (which is $0.01 per share), and in the case of employees subject to Section 16, not less than 50% of the fair market value on the date of grant. In the event that non-qualified stock options are granted under the 1993 Plan or the 2001 Plan, the exercise price may be less than the fair market value at the time of grant but not less than par value.

A total of 748.0 million shares of common stock have been reserved for issuance under the above four plans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

We have a stock option plan that provides for the grant of stock options to members of our Board of Directors (the Directors Plan). A total of 14.4 million shares of common stock have been reserved for issuance under the Directors Plan. The exercise price for each option granted under the Directors Plan will be at a price per share determined at the time the option is granted, but not less than 50% of the fair market value of common stock on the date of grant.

At June 30, 2006, there was an aggregate of approximately 86.1 million shares of common stock available for issuance pursuant to future grants under the 1985 Plan, the 1993 Plan, the 2001 Plan, the 2003 Plan and the Directors 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.

We utilize both authorized and unissued shares and treasury shares to satisfy all shares issued under our equity plans. Our Board of Directors has authorized the repurchase of 500.0 million shares of our common stock. For the three and six months ended June 30, 2006, we repurchased 78.3 million and 106.0 million shares of our common stock, respectively. Cumulatively, we have repurchased 238.5 million shares at a cost of $3.1 billion, leaving a remaining balance of 261.5 million shares authorized for future repurchases.

We plan to spend $3.0 billion in 2006 on common stock repurchases and the redemption of the Notes (see Note 7). Through the six months ended June 30, 2006, we have repurchased approximately $1.375 billion of our common stock and redeemed the Notes for $126.1 million.

Employee Stock Purchase Plan

Under our 1989 Employee Stock Purchase Plan (the 1989 Plan), eligible employees may purchase shares of common stock through payroll deductions 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 granted twice yearly, on January 1 and July 1, and are exercisable on the succeeding June 30 or December 31. There are 98.0 million shares approved to be issued under the 1989 Plan. For the six months ended June 30, 2006 and 2005, 5.6 million shares and 4.2 million shares, respectively, were purchased under the 1989 Plan at a purchase price per share of $9.32 and $11.65 respectively. Total cash proceeds from the purchase of shares under the 1989 Plan for the six months ended June 30, 2006 and 2005 were $52.6 million and $49.2 million, respectively.

Stock Options

The following tables summarize our option activity under all equity plans for the three and six months ended June 30, 2006 and 2005 as follows (shares in thousands):

	Number of Shares	Wtd. Avg. Exercise Price
Outstanding, January 1, 2006	296,250	$ 17.78
Granted	3,171	13.56
Forfeited	(2,730)	12.69
Expired	(1,519)	33.11
Exercised	(8,938)	7.02
Outstanding, March 31, 2006	286,234	18.04
Options granted relating to business acquisitions	1,190	0.53
Granted	3,028	13.37
Forfeited	(1,907)	12.58

Expired	(1,105)	35.14
Exercised	(2,410)	6.26
Outstanding, June 30, 2006	285,030	$ 18.00

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Number of Shares	Wtd. Avg. Exercise Price
Outstanding, January 1, 2005	275,341	$ 18.02
Options granted relating to business acquisitions	3,938	5.17
Granted	2,186	12.88
Forfeited	(3,061)	15.70
Expired	(2,004)	37.34
Exercised	(6,281)	5.90
Outstanding, March 31, 2005	270,119	17.96
Granted	1,201	12.72
Forfeited	(1,694)	14.74
Expired	(934)	35.79
Exercised	(7,792)	6.82
Outstanding, June 30, 2005	260,900	$ 18.26

The total pre-tax intrinsic value of options exercised during the three months ended June 30, 2006 and 2005 was $16.2 million and $53.4 million, respectively, and was $78.2 million and $98.1 million for the six months ended June 30, 2006 and 2005, respectively. Cash proceeds from the exercise of stock options were $14.7 million and $53.1 million for the three months ended June 30, 2006 and June 30, 2005, respectively. Cash proceeds from the exercise of stock options were $77.3 million and $87.6 million for the six months ended June 30, 2006 and June 30, 2005, respectively. Income tax benefits realized from the exercise of stock options during the three months ended June 30, 2006 and 2005 were $8.5 million and $16.6 million, respectively, and were $27.3 million and $30.9 million for the six months ended June 30, 2006 and 2005, respectively.

Summarized information about stock options outstanding that are expected to vest and stock options exercisable at June 30, 2006 is as follows (shares and intrinsic values in thousands):

	Options Outstanding and Expected to Vest				Options Exercisable			
Range of Exercise Price	Number of Options	Weighted Avg. Remaining Contractual Life	Weighted Avg. Exercise Price	Aggregate Intrinsic Value	Number of Options	Weighted Avg. Remaining Contractual Life	Weighted Avg. Exercise Price	Aggregate Intrinsic Value
$ 0.01-$ 4.12	7,793	4.4	$ 1.81	$ 71,384	6,935	4.3	$ 1.96	$ 62,484
$ 4.13-$ 9.27	45,139	5.1	6.04	222,535	31,596	4.8	6.27	148,501
$ 9.28-$13.91	118,612	6.6	12.26	3,415	58,498	5.5	12.10	2,662
$13.92-$20.87	52,984	7.5	14.06		10,304	4.8	16.92	
$20.88-$31.31	1,792	2.8	26.69		1,792	2.8	26.69	
$31.32-$46.97	24,612	4.2	35.07		24,612	4.2	35.07	
$46.98-$70.46	5,460	3.7	60.04		5,460	3.7	60.04	
$70.47-$90.00	13,797	4.2	83.36		13,797	4.2	83.36	
	270,189	6.0	$ 18.04	$ 297,334	152,994	4.8	$ 22.76	$ 213,647
Expected forfeitures	14,841							

Total options outstanding	285,030

The aggregate intrinsic values in the preceding table represent the total pre-tax intrinsic values based on our closing stock price of $10.97 as of June 30, 2006 which would have been received by the option holders had all options been exercised as of that date.

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Restricted Stock and Restricted Stock Units

The following tables summarize our restricted stock and restricted stock unit activity for the three and six months ended June 30, 2006 and 2005 (shares in thousands):

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted stock and restricted stock units at January 1, 2006	25,291	$ 13.74
Granted	353	13.43
Vested	(2,853)	12.98
Forfeited	(127)	13.72
Restricted stock and restricted stock units at March 31, 2006	22,664	13.83
Granted	3,681	12.56
Vested	(1,461)	13.37
Forfeited	(69)	13.57
Restricted stock and restricted stock units at June 30, 2006	24,815	$ 13.71

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted stock and restricted stock units at January 1, 2005	6,903	$ 12.76
Granted	1,488	12.89
Vested	(763)	12.92
Restricted stock and restricted stock units at March 31, 2005	7,628	12.77
Granted	6,943	13.98
Vested	(349)	11.21
Forfeited	(84)	13.00
Restricted stock and restricted stock units at June 30, 2005	14,138	$ 13.40

The total fair value of restricted stock and restricted stock units that vested during the three and six months ended June 30, 2006 was $19.5 million and $56.6 million, respectively. The total fair value of restricted stock and restricted stock units that vested during the three and six months ended June 30, 2005 was $3.9 million and $13.8 million, respectively.

Our restricted stock awards have various vesting terms, including pro rata vesting over three years, cliff vesting at the end of three or five years from the date of grant with acceleration for achieving specified performance criteria and cliff vesting on various dates contingent on achieving specified performance criteria.

As of June 30, 2006, 24.8 million shares of restricted stock and restricted stock units were outstanding and unvested, with an aggregate intrinsic value of $340.1 million and a weighted average remaining contractual life of approximately 3.4 years. These shares and units are expected to vest through 2011. Of the total shares of restricted stock and restricted stock units outstanding, 17.9 million shares and units will vest upon fulfilling service conditions. Of this amount, vesting for 15.9 million shares and units will accelerate upon achieving performance conditions. The remaining 6.9 million shares and units will vest only if certain performance conditions are achieved.

Impact of Adopting FAS No. 123R

On January 1, 2006, we adopted FAS No. 123R. The standard requires recognizing compensation costs for all share-based payment awards made to employees and directors based upon the awards estimated grant date fair value. The standard covers employee stock options, restricted stock, restricted stock units and employee stock purchases related to our employee stock

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

purchase plan. Additionally, we applied the provisions of the SEC s Staff Accounting Bulletin No. 107 on Share-Based Payment to our adoption of FAS No. 123R. Previously, we elected to account for these share-based payment awards under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25) and elected to only disclose the impact of expensing the fair value of stock options in the notes to the financial statements.

We adopted FAS No. 123R using the modified prospective transition method which requires applying the standard as of January 1, 2006 (the adoption date). The modified prospective transition method does not result in the restatement of results from prior periods and accordingly, the results of operations for the three and six months ended June 30, 2006 and future periods will not be comparable to our historical results of operations.

Under the modified prospective transition method, FAS No. 123R applies to new equity awards and to equity awards modified, repurchased or canceled after the adoption date. Additionally, compensation cost for the portion of awards granted prior to the adoption date for which the requisite service has not been rendered as of the adoption date shall be recognized as the requisite service is rendered. The compensation cost for that portion of awards shall be based on the grant-date fair value of those awards as calculated in the prior period pro forma disclosures under FAS No. 123, Accounting for Stock-Based Compensation (FAS No. 123). Changes to the grant-date fair value of equity awards granted before the effective date are precluded. The compensation cost for those earlier awards shall be attributed to periods beginning on or after the adoption date using the attribution method that was used under FAS No. 123, which was the straight-line method. Instead of recognizing forfeitures only as they occur, we now estimate an expected forfeiture rate which is factored in to determine our quarterly expense. Deferred compensation which related to those earlier awards has been eliminated against additional paid-in capital. FAS No. 123R also changes the reporting of tax-related amounts within the statement of cash flows. The gross amount of windfall tax benefits resulting from stock-based compensation will be reported as financing inflows.

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

The following table summarizes the components of total stock-based compensation expense included in our consolidated income statement for the three and six months ended June 30, 2006 (in thousands):

	Three Months Ended June, 30 2006			Six Months Ended June 30, 2006		
	Stock Options	Restricted Stock	Total Stock-Based Compensation	Stock Options	Restricted Stock	Total Stock-Based Compensation
Cost of product sales	$ 9,289	$ 1,507	$ 10,796	$ 20,293	$ 2,671	$ 22,964
Cost of services	4,936	707	5,643	11,327	1,451	12,778
Research and development	13,839	11,996	25,835	30,724	20,373	51,097
Selling, general and administrative	37,114	18,935	56,049	78,078	37,022	115,100
Stock-based compensation expense before income taxes	65,178	33,145	98,323	140,422	61,517	201,939
Income tax benefit	10,133	9,355	19,488	24,363	17,219	41,582
Total stock-based compensation, net of tax	$ 55,045	$ 23,790	$ 78,835	$ 116,059	$ 44,298	$ 160,357

Stock option expense includes $6.2 million and $13.9 million of expense for the three and six months ended June 30, 2006 associated with our employee stock purchase plan.

In connection with the adoption of FAS No. 123R, we recorded a cumulative effect adjustment of $3.4 million for the six months ended June 30, 2006 to recognize compensation costs recorded in our pro forma equity compensation disclosures that would have been capitalized in our consolidated balance sheet as of January 1, 2006. Additionally, included in the cumulative effect adjustment was the application of an estimated forfeiture rate on our previously recognized expense on unvested restricted stock and restricted stock units.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The table below presents the net change in amounts capitalized or accrued on the consolidated balance sheet for the three and six months ended June 30, 2006 in the following line items (in thousands):

	Increased (Decreased) during the three months ended June 30, 2006	Increased (Decreased) during the six months ended June 30, 2006
Inventory	$ (796)	$ 2,396
Other assets (capitalized software development costs)	880	15,113
Accrued expenses (accrued warranty expenses)	1,071	23,120

As of June 30, 2006, the total unrecognized after-tax compensation cost for stock options, restricted stock, restricted stock units and options under our employee stock purchase plan was $580.2 million. Approximately 82% of our employees have received grants through these equity compensation programs. This non-cash expense will be recognized through 2011 with a weighted average remaining period of 1.7 years.

As a result of adopting FAS No. 123R, our income before taxes and net income for the three months ended June 30, 2006 were $59.5 million and $51.5 million lower, respectively, and our income before taxes and net income for the six months ended June 30, 2006 were $128.4 million and $108.4 million lower, respectively, than if we had continued to account for share-based compensation under APB No. 25. Basic and diluted earnings per share for the three months ended June 30, 2006 would have each been $0.14 if we had not adopted FAS No. 123R, compared to reported basic and diluted earnings per share which were each $0.12. Basic and diluted earnings per share for the six months ended June 30, 2006 would have each been $0.28 if we had not adopted FAS No. 123R, compared to reported basic and diluted earnings per share of $0.24 and $0.23, respectively.

Prior to the adoption of FAS No. 123R, we presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the consolidated statement of cash flows. FAS No. 123R requires the cash flows resulting from excess tax benefits to be classified as financing cash flows, rather than as operating cash flows. The $9.7 million excess tax benefit classified as a financing cash inflow would have been classified as an operating cash inflow had we not adopted FAS No. 123R.

For the periods prior to 2006, we elected to apply APB No. 25 and related interpretations in accounting for our stock-based compensation plans. The following is a reconciliation of net income per weighted average share had we adopted the fair value recognition provisions of FAS No. 123 for the three and six months ended June 30, 2005 (table in thousands, except per share amounts):

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net income	$ 293,364	$ 563,198
Add back: Stock compensation costs, net of tax, on stock-based awards	13,111	22,130
Less: Stock compensation costs, net of taxes, had stock compensation expense been measured at fair value	(99,477)	(196,133)
Incremental stock compensation expense per FAS No. 123, net of taxes	(86,366)	(174,003)
Adjusted net income	$ 206,998	$ 389,195
Net income per weighted average share, basic as reported	$ 0.12	$ 0.24

Net income per weighted average share, diluted as reported	$	0.12	$	0.23
Adjusted net income per weighted average share, basic	$	0.09	$	0.16
Adjusted net income per weighted average share, diluted	$	0.08	$	0.16

The amounts in this table have been adjusted from the amounts reported in our Quarterly Report on Form 10-Q for the three and six months ended June 30, 2005 to be calculated following the same method that has been utilized under FAS No. 123R. The total impact of the change was to increase the incremental stock option expense per FAS No. 123, net of taxes by $1.7 million for the three months ended June 30, 2005 and $4.5 million for the six months ended June 30, 2005.

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Under the 2003 Plan, certain awards granted to an employee who meets the age and/or length of service requirements for retirement set forth in the plan generally will continue to vest after such employee s retirement without additional service, subject to the terms and conditions of the grant document. In connection with the above reconciliation of net income assuming adoption of FAS No. 123, our policy with respect to these awards has been to recognize compensation cost over the stipulated vesting period, which is typically five years. If the employee retires before the end of the vesting period, any remaining unrecognized compensation cost would be recognized at the date of retirement. The SEC has determined that companies that follow this approach should continue to do so for all applicable equity-based awards issued prior to the effective date of FAS No. 123R. These awards should also continue to be accounted for in this manner subsequent to the effective date of FAS No. 123R. The cost of applicable equity-based awards issued subsequent to the effective date of FAS No. 123R, however, should be recognized through the retirement eligibility date. Had we recognized compensation expense over this shorter service period, the increase in stock compensation costs, net of taxes, presented on a pro forma basis under FAS No. 123, would have been $1.4 million and $6.4 million for the three and six months ended June 30, 2005.

The fair value of each option granted during the three and six months ended June 30, 2006 and 2005, respectively, is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	For the Three Months Ended		For the Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
Stock Options	2006	2005	2006	2005
Dividend yield	None	None	None	None
Expected volatility	35.0%	45.0%	35.0%	45.0%
Risk-free interest rate	4.97%	3.72%	4.76%	3.77%
Expected life (in years)	4.0	4.0	4.0	4.0
Weighted-average fair value at grant date	$4.67	$5.09	$4.66	$5.11

	For the Three Months Ended		For the Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
Employee Stock Purchase Plan	2006	2005	2006	2005
Dividend yield	None	None	None	None
Expected volatility	26.8%	45.0%	26.8%	45.0%
Risk-free interest rate	4.43%	2.46%	4.43%	2.46%
Expected life (in years)	0.5	0.5	0.5	0.5
Weighted-average fair value at grant date	$3.17	$4.16	$3.17	$4.16

Expected volatilities are based on our historical 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. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

10. Restructuring and Other Special Charges

During the three months ended June 30, 2006, we incurred restructuring and other special charges of $12.0 million. This amount included a $12.4 million IPR&D charge related to our acquisitions during this timeframe and a $0.4 million charge associated with vacating leased facilities, partially offset by a net reduction of $0.8 million from our prior restructuring programs.

For the six months ended June 30, 2006, we recorded restructuring and other special charges of $10.8 million. This amount consisted of a $12.4 million IPR&D charge, a $0.4 million charge associated with vacating leased facilities partially offset by a net reduction from our prior restructuring programs of $2.0 million. This reduction was primarily attributable to lower than expected severance payments, partially offset by higher costs associated with vacating leased facilities.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The activity for the 2006, 2005 and prior restructuring programs for the three and six months ended June 30, 2006 and 2005, respectively, is presented below (tables in thousands):

2006 Restructuring Program

Three Months Ended June 30, 2006

Category	Balance as of March 31, 2006	Initial Provision	Utilization	Balance as of June 30, 2006
Consolidation of excess facilities	$	$ 427	$ (29)	$ 398
Total	$	$ 427	$ (29)	$ 398

Six Months Ended June 30, 2006

Category	Balance as of December 31, 2005	Initial Provision	Utilization	Balance as of June 30, 2006
Consolidation of excess facilities	$	$ 427	$ (29)	$ 398
Total	$	$ 427	$ (29)	$ 398

The activity for the 2005 and prior restructuring programs for the three and six months ended June 30, 2006 and 2005, respectively, is presented below (tables in thousands):

2005 Restructuring Programs

Three Months Ended June 30, 2006

Category	Balance as of March 31, 2006	Adjustment to the Provision	Utilization	Balance as of June 30, 2006
Workforce reductions	$ 60,772	$ (816)	$ (15,785)	$ 44,171
Consolidation of excess facilities	165		(31)	134

Total	$ 60,937	$ (816)	$ (15,816)	$ 44,305

Six Months Ended June 30, 2006

Category	**Balance as of December 31, 2005**	**Adjustment to the Provision**	**Utilization**	**Balance as of June 30, 2006**
Workforce reductions	$ 79,783	$ (1,182)	$ (34,430)	$ 44,171
Consolidation of excess facilities		240	(106)	134
Total	$ 79,783	$ (942)	$ (34,536)	$ 44,305

Three Months Ended June 30, 2005

Category	**Balance as of March 31, 2005**	**Adjustment to the Provision**	**Utilization**	**Balance as of June 30, 2005**
Workforce reductions	$ 2,774	$	$ (628)	$ 2,146
Total	$ 2,774	$	$ (628)	$ 2,146

Six Months Ended June 30, 2005

Category	**Balance as of December 31, 2004**	**Adjustment to the Provision**	**Utilization**	**Balance as of June 30, 2005**
Workforce reductions	$	$ 3,123	$ (977)	$ 2,146
Total	$	$ 3,123	$ (977)	$ 2,146

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The 2005 restructuring programs included two separate reductions in workforce, one that commenced in the first quarter of 2005 that covered approximately 60 employees and a second which commenced in the fourth quarter of 2005 that covered approximately 1,000 employees. As of June 30, 2006, we had terminated approximately 625 employees under these restructuring programs.

Prior Restructuring Programs

We implemented restructuring programs from 1998 through 2004. The activity for these programs for the three and six months ended June 30, 2006 and 2005, respectively, is presented below (tables in thousands):

Three Months Ended June 30, 2006

Category	Balance as of March 31, 2006	Adjustment to the Provision	Utilization	Balance as of June 30, 2006
Workforce reductions	$ 6,463	$ (646)	$ (1,381)	$ 4,436
Consolidation of excess facilities	60,658	649	(4,251)	57,056
Total	$ 67,121	$ 3	$ (5,632)	$ 61,492

Six Months Ended June 30, 2006

Category	Balance as of December 31, 2005	Adjustment to the Provision	Utilization	Balance as of June 30, 2006
Workforce reductions	$ 9,416	$ (1,918)	$ (3,062)	$ 4,436
Consolidation of excess facilities	65,414	853	(9,211)	57,056
Total	$ 74,830	$ (1,065)	$ (12,273)	$ 61,492

Three Months Ended June 30, 2005

Category	Balance as of March 31, 2005	Adjustment to the Provision	Utilization	Balance as of June 30, 2005
Workforce reductions	$ 18,785	$	$ (2,471)	$ 16,314
Consolidation of excess facilities	80,948		(11,630)	69,318

Total	$	99,733	$		$	(14,101)	$	85,632

Six Months Ended June 30, 2005

Category		**Balance as of December 31, 2004**		**Adjustment to the Provision**		**Utilization**		**Balance as of June 30, 2005**
Workforce reductions	$	22,319	$	(30)	$	(5,975)	$	16,314
Consolidation of excess facilities		92,943		(5,225)		(18,400)		69,318
Total	$	115,262	$	(5,255)	$	(24,375)	$	85,632

Adjustments to the provision during the three and six months ended June 30, 2006 were primarily attributable to higher costs associated with vacating leased facilities, partially offset by lower than anticipated severance payments. Substantially all employees included in the 2004 and prior restructuring programs have been terminated. The remaining balance owed for the consolidation of excess facilities represents lease obligations on vacated facilities. These amounts are expected to be paid through 2015.

The adjustment to the provision for the six months ended June 30, 2005 was primarily attributable to lower than expected costs associated with vacating excess facilities.

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

11. Commitments and Contingencies

Outstanding Purchase Orders

At June 30, 2006, we had outstanding purchase orders aggregating approximately $1.5 billion 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 June 30, 2006, 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 June 30, 2006, we were in compliance with the covenants.

Litigation

We are a party to various litigation matters which we consider routine and incidental to our business. Management does not expect the results of any of these actions to have a material adverse effect on our business, results of operations or financial condition.

12. Segment Information

Management has organized the business around our product and service offerings. We operate in the following segments: EMC information storage products, EMC multi-platform software, EMC services, VMware and Other businesses. The corporate reconciling items were added during the three and six months ended June 30, 2006 to capture stock-based compensation expense and acquisition-related intangible asset amortization expense which management does not use in evaluating the performance of its operating segments. The segment information for the three and six months ended June 30, 2005 has been adjusted to conform to the current year presentation. Our management makes financial decisions and allocates resources based on revenues and gross profit achieved at the segment level. We do not allocate selling, general and administrative expenses, research and development expenses or assets to each segment, as management does not use this information to measure the performance of the operating segments.

The EMC information storage products segment includes systems revenues and platform-based storage software revenues. The EMC multi-platform software segment includes systems revenues, multi-platform based storage and management software revenues, software maintenance services revenues and professional services revenues. The EMC services segment includes hardware and software maintenance revenues and professional services revenues. The VMware segment includes virtual infrastructure software revenues, software maintenance services revenues and professional services revenues. The Other businesses segment includes hardware maintenance revenues associated with AViiON servers.

The revenue components and gross profit attributable to these segments are set forth in the following tables (tables in thousands, except percentages):

For the Three Months Ended	EMC Information Storage Products	EMC Multi-platform Software	EMC Services	VMware	Other Businesses	Corporate Reconciling Items	Consolidated

June 30, 2006							
Systems revenues	$ 1,147,892	$ 3,708	$	$	$	$	$ 1,151,600
Software revenues	291,059	277,104		113,835			681,998
Services revenues		204,178	490,879	43,657	2,211		740,925
Total revenues	1,438,951	484,990	490,879	157,492	2,211		2,574,523
Cost of sales	808,174	96,294	250,486	22,164	1,121	38,292	1,216,531
Gross profit	$ 630,777	$ 388,696	$ 240,393	$ 135,328	$ 1,090	$ (38,292)	$ 1,357,992
Gross profit percentage	43.8%	80.1%	49.0%	85.9%	49.3%		52.7%

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	EMC Information Storage Products	EMC Multi-platform Software	EMC Services	VMware	Other Businesses	Corporate Reconciling Items	Consolidated
June 30, 2005							
Systems revenues	$ 1,068,725	$	$	$	$	$	$ 1,068,725
Software revenues	312,827	240,870		65,908			619,605
Services revenues		167,396	455,566	25,019	8,504		656,485
Total revenues	1,381,552	408,266	455,566	90,927	8,504		2,344,815
Cost of sales	757,297	83,140	212,883	11,312	4,244	19,297	1,088,173
Gross profit	$ 624,255	$ 325,126	$ 242,683	$ 79,615	$ 4,260	$ (19,297)	$ 1,256,642
Gross profit percentage	45.2%	79.6%	53.3%	87.6%	50.1%		53.6%
For the Six Months Ended June 30, 2006							
Systems revenues	$ 2,370,516	$ 8,012	$	$	$	$	$ 2,378,528
Software revenues	563,878	534,043		205,679			1,303,600
Services revenues		391,350	963,821	82,826	5,085		1,443,082
Total revenues	2,934,394	933,405	963,821	288,505	5,085		5,125,210
Cost of sales	1,638,832	197,274	475,007	40,487	3,081	79,194	2,433,875
Gross profit	$ 1,295,562	$ 736,131	$ 488,814	$ 248,018	$ 2,004	$ (79,194)	$ 2,691,335
Gross profit percentage	44.2%	78.9%	50.7%	86.0%	39.4%		52.5%
June 30, 2005							
Systems revenues	$ 2,094,696	$	$	$	$	$	$ 2,094,696
Software revenues	597,312	488,622		128,203			1,214,137
Services revenues		320,969	896,701	42,814	18,629		1,279,113
Total revenues	2,692,008	809,591	896,701	171,017	18,629		4,587,946
Cost of sales	1,505,564	158,971	423,793	20,036	9,860	38,859	2,157,083
Gross profit	$ 1,186,444	$ 650,620	$ 472,908	$ 150,981	$ 8,769	$ (38,859)	$ 2,430,863
Gross profit percentage	44.1%	80.4%	52.7%	88.3%	47.1%		53.0%

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

	For the Three Months Ended		For the Six Months Ended	
	June 30,	June 30, 2005	June 30,	June 30, 2005

	2006		2006	
United States	$ 1,453,010	$ 1,333,933	$ 2,899,381	$ 2,609,898
Europe, Middle East and Africa	742,846	663,082	1,492,837	1,304,147
Asia Pacific	263,379	257,681	514,737	505,549
Latin America, Mexico and Canada	115,288	90,119	218,255	168,352
Total	$ 2,574,523	$ 2,344,815	$ 5,125,210	$ 4,587,946

No country other than the United States accounted for 10% or more of revenues during the three or six months ended June 30, 2006 or 2005.

Long-lived assets, excluding financial instruments and deferred tax assets in the United States were $6,856.7 million at June 30, 2006 and $6,527.8 million at December 31, 2005. No country other than the United States accounted for 10% or more of these assets at June 30, 2006 or at December 31, 2005. Long-lived assets, excluding financial instruments and deferred tax assets, internationally were $299.7 million at June 30, 2006 and $271.0 million at December 31, 2005.

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

For the three and six months ended June 30, 2006 and 2005, sales to Dell Inc. accounted for 14.3% and 11.4%, and 14.1% and 11.0% respectively, of our total revenues. Revenues from Dell Inc. are classified within all segments, except for Other businesses and Corporate reconciling items.

13. Retirement Plans and Retiree Medical Benefits

401(k) Plan

We have established a deferred compensation program for certain employees that is qualified under Section 401(k) of the U.S. Internal Revenue 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 contribution amounted to $10.2 million and $9.1 million and $20.3 million and $17.7 million for the three and six months ended June 30, 2006 and 2005, 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 Plans

We have a noncontributory defined benefit pension plan (the Pension Plan) which was assumed as part of the Data General acquisition, which covers 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.

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. Prior service cost is amortized over the average remaining service period of employees expected to receive benefits under the plan. The measurement date for the plans is December 31.

Our 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 June 30, 2006, the Pension Plan held $0.3 million of our common stock.

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

	For the Three Months Ended	
	June 30, 2006	June 30, 2005
Interest cost	$ 5,013	$ 4,774
Expected return on plan assets	(7,425)	(7,064)
Amortization of transition asset		(153)
Recognized actuarial loss	2,059	1,659
Net periodic benefit credit	$ (353)	$ (784)

For the Six Months Ended

	June 30, 2006	June 30, 2005
Interest cost	$ 10,034	$ 9,482
Expected return on plan assets	(14,851)	(14,102)
Amortization of transition asset		(306)
Recognized actuarial loss	4,035	3,179
Net periodic benefit credit	$ (782)	$ (1,747)

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Post Retirement Medical and Life Insurance Plan

Our post retirement benefit plan, which was assumed in connection with the acquisition of Data General, provides certain medical and life insurance benefits for retired former Data General employees. With the exception of certain participants who retired prior to 1986, the medical benefit plan requires monthly contributions by retired participants in an amount equal to insured equivalent costs less a fixed EMC contribution which is dependent on the participant s length of service and Medicare eligibility. Benefits are continued to dependents of eligible retiree participants for 39 weeks after the death of the retiree. The life insurance benefit plan is noncontributory. The measurement date for the plan is December 31.

The components of net periodic benefit cost are as follows (table in thousands):

	For the Three Months Ended	
	June 30, 2006	June 30, 2005
Interest cost	$ 98	$ 60
Expected return on plan assets	(9)	(7)
Amortization of transition asset	(25)	(25)
Recognized actuarial gain	19	(10)
Net periodic benefit cost	$ 83	$ 18

	For the Six Months Ended	
	June 30, 2006	June 30, 2005
Interest cost	$ 196	$ 120
Expected return on plan assets	(18)	(15)
Amortization of transition asset	(50)	(50)
Recognized actuarial gain	38	(20)
Net periodic benefit cost	$ 166	$ 35

14. Income Taxes

Our effective income tax rate was 14.4% and 19.7% for the three and six months ended June 30, 2006, respectively. The effective income tax rate is based upon the estimated income for the year, the composition of the income in different countries, and adjustments, if any, in the applicable quarterly periods for the potential tax consequences, benefits, resolutions of tax audits or other discrete tax items.

For the three and six months ended June 30, 2006, the effective tax rate varied from the statutory tax rate as a result of the mix of income attributable to foreign versus domestic jurisdictions. Our aggregate income tax rate in foreign jurisdictions is lower than our income tax rate in the United States. Additionally, during the three and six months ended June 30, 2006, we recognized tax benefits of $33.3 million and $44.7 million, respectively. The $33.3 million benefit recognized during the second quarter of 2006 resulted primarily from the favorable resolution of certain income tax audits. The benefit recognized during the six months ended June 30, 2006 also includes an $11.4 million benefit that resulted primarily from a reduction in certain income tax contingencies. Partially offsetting these benefits were non-deductible IPR&D charges totaling $12.4 million incurred in connection with several acquisitions made during the second quarter of 2006.

Our effective income tax rate was 26.9% for the three months ended June 30, 2005 and 26.2% for the six months ended June 30, 2005. For both periods, the effective tax rate varied from the statutory tax rate as a result of the mix of income attributable to foreign versus domestic

jurisdictions. Additionally, for the six months ended June 30, 2005 we recognized a tax benefit of $7.4 million, primarily from a reduction in certain income tax contingencies. Partially offsetting this benefit was a non-deductible IPR&D charge of $3.1 million incurred in connection with a business acquisition.

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with our interim consolidated financial statements and notes thereto which appear elsewhere in this Quarterly Report on Form 10-Q and the MD&A contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the SEC) on March 6, 2006. The following discussion contains forward-looking statements and should also be read in conjunction with the risk factors set forth in Item 1A of Part II of this Quarterly Report on Form 10-Q. The forward-looking statements do not include the impact of the definitive agreement to acquire all of the outstanding capital stock of RSA Security Inc., which we announced on June 29, 2006, or of any other potential mergers, acquisitions, divestitures or business combinations that may be announced or closed after the date hereof.

All dollar amounts in this MD&A are in millions, except per share amounts.

Certain tables may not add due to rounding.

INTRODUCTION

Our financial objective is to achieve profitable growth. Management believes that by providing a combination of systems, software, services and solutions to meet customers needs, we will be able to further increase revenues. Our efforts over the past few years have been primarily focused on growing revenues by enhancing and expanding our portfolio of offerings to satisfy our customers requirements. We have also focused on improving operating margins by increasing gross margins and reducing operating expenses as a percentage of revenues. Our results of operations were impacted by a significant increase in stock-based compensation expense as a result of our adoption of Financial Accounting Standard No. 123R, Share-Based Payment (FAS No. 123R) for the first half of 2006, as described further below. We selected the modified prospective transition method, which does not result in the restatement of results from prior periods, and accordingly, our gross and operating margins as a percentage of total revenue declined during the first half of 2006 compared to the first half of 2005. We expect this decline when making year-over-year quarterly comparisons to continue until the first quarter of 2007, when both the 2006 and 2007 results will include the effect of accounting for stock-based compensation under FAS No. 123R. We have increased our overall investment in research and development (R&D) from $253.3 and $487.6 for the three and six months ended June 30, 2005, respectively, to $299.4 and $582.9 (which includes incremental stock-based compensation expense of $11.8 and $26.3, respectively) for the three and six months ended June 30, 2006. These R&D expenditures have enabled us to introduce new and enhanced product and service offerings. We have also made acquisitions over the past three years to expand our offerings. We plan to continue to focus our efforts in 2006 on growing revenues and improving our gross and operating margins.

On January 1, 2006, we adopted FAS No. 123R. The standard requires recognizing compensation costs for all share-based payment awards made to employees and directors based upon the award s estimated grant date fair value. The standard covers employee stock options, restricted stock, restricted stock units and employee stock purchases related to our employee stock purchase plan. Additionally, we applied the provisions of the SEC s Staff Accounting Bulletin No. 107 on Share-Based Payment to our adoption of FAS No. 123R. Previously, we elected to account for these share-based payment awards under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), and elected to only disclose the impact of expensing the fair value of stock options in the notes to the financial statements.

Total after-tax stock-based compensation expense, which consists of expense from employee stock options, our employee stock purchase plan (ESPP) and restricted stock awards, was $78.8 and $160.4 for the three and six months ended June 30, 2006. For periods prior to our adoption of FAS No. 123R on January 1, 2006, stock-based compensation expense consisted exclusively of expense from restricted stock awards and the amortization of deferred compensation costs associated with stock options issued as consideration in various acquisitions. Accordingly, our financial results for the three and six months ended June 30, 2006 were not prepared on a comparative basis to our financial results for the three and six months ended June 30, 2005. Total after-tax stock-based compensation expense for the three and six months ended June 30, 2005 was $13.1 and $22.1. As of June 30, 2006, the total unrecognized after-tax compensation cost for stock options, restricted stock awards and options under the ESPP was $580.2. Approximately 82% of our employees have received grants through these equity compensation programs. This non-cash expense will be recognized through 2011 over a weighted average remaining period of 1.7 years.

We elected to estimate the fair value of employee stock option awards and ESPP purchases using the Black-Scholes model. The determination of the fair value of share-based payment awards on the date of grant using the Black-Scholes model is affected by our stock price as well as assumptions regarding a number of subjective variables. These variables include the expected stock price volatility over the term of the awards, the risk-free interest rate associated with the expected term of the awards, expected dividends and actual and projected employee stock option exercise behaviors.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS - (Continued)

For the three and six months ended June 30, 2006, our Black-Scholes option model included the following weighted average assumptions for our employee stock options and ESPP:

Three Months Ended June 30, 2006

	Stock Options	ESPP
Dividend yield	None	None
Expected volatility	35.0%	26.8%
Risk-free interest rate	4.97%	4.43%
Expected life (in years)	4.0	0.5
Weighted-average fair value at grant date	$4.67	$3.17

Six Months Ended June 30, 2006

	Stock Options	ESPP
Dividend yield	None	None
Expected volatility	35.0%	26.8%
Risk-free interest rate	4.76%	4.43%
Expected life (in years)	4.0	0.5
Weighted-average fair value at grant date	$4.66	$3.17

To determine an expected volatility assumption required in the Black-Scholes option pricing model, we used a combination of implied volatility for six month and two year traded options on our stock for purposes of our ESPP and stock options, respectively, and our historical stock price volatility. The expected term assumption is based upon actual historical exercises and cancellations of EMC stock options. We are using the same methodology to calculate expected volatility and expected term that was used prior to our adoption of FAS No. 123R. The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of our employee stock options and ESPP. The dividend yield assumption is based on the history and expectation of dividend payouts. Stock-based compensation expense recognized within a given reporting period is based on awards that are expected to vest in current or future periods. Accordingly, recognized stock-based compensation expense from stock options and the ESPP is reduced for expected forfeitures. FAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures were estimated based on historical experience. See Note 9 to our consolidated financial statements for more information regarding our implementation of FAS No. 123R.

RESULTS OF OPERATIONS

The following table presents certain consolidated income statement information stated as a percentage of total revenues. The consolidated income statement information set forth in this table is not prepared on a comparative basis due to our adoption of FAS No. 123R. As previously noted, incremental stock-based compensation expense associated with FAS No. 123R is included in the consolidated income statement information for the three and six months ended June 30, 2006, but is excluded from the consolidated income statement information for the three and six months ended June 30, 2005.

	For the Three Months Ended June 30,	
	2006	June 30, 2005
Total revenue	100.0%	100.0%

Cost of sales	47.3	46.4
Gross margin	52.7	53.6
Research and development	11.6	10.8
Selling, general and administrative	30.4	27.4
Restructuring and other special charges	0.5	
Operating income	10.3	15.4
Investment income, interest expense and other income/expense, net	2.4	1.7
Income before taxes	12.7	17.1
Income tax provision	1.8	4.6
Net income	10.8%	12.5%

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS - (Continued)

	For the Six Months Ended June 30, 2006	June 30, 2005
Total revenue	100.0%	100.0%
Cost of sales	47.5	47.0
Gross margin	52.5	53.0
Research and development	11.4	10.6
Selling, general and administrative	29.9	27.4
Restructuring and other special charges	0.2	
Operating income	11.1	14.9
Investment income, interest expense and other income/expense, net	2.4	1.7
Income before taxes	13.5	16.6
Income tax provision	2.7	4.4
Net income	10.8%	12.3%

Revenues

The following table presents revenue by our segments:

	For the Three Months Ended June 30, 2006	June 30, 2005	$ Change	% Change
EMC information storage products	$ 1,439.0	$ 1,381.6	$ 57.4	4.2%
EMC multi-platform software	485.0	408.3	76.7	18.8
EMC services	490.9	455.6	35.3	7.7
VMware	157.5	90.9	66.6	73.3
Other businesses	2.2	8.5	(6.3)	(74.1)
Total revenues	$ 2,574.5	$ 2,344.8	$ 229.7	9.8%

	For the Six Months Ended June 30, 2006	June 30, 2005	$ Change	% Change
EMC information storage products	$ 2,934.4	$ 2,692.0	$ 242.4	9.0%
EMC multi-platform software	933.4	809.6	123.8	15.3
EMC services	963.8	896.7	67.1	7.5
VMware	288.5	171.0	117.5	68.7
Other businesses	5.1	18.6	(13.5)	(72.6)

Total revenues	$	5,125.2	$	4,587.9	$ 537.3	11.7%

We provide a variety of systems, software and services to help our customers extract greater value from their information and get the most out of their IT assets. In any particular period, customer demands will vary for their particular solution requirements which will cause changes in the amount of systems, software and services we sell. Accordingly, there can be changes in the mix of revenues from period to period reflecting customer demand.

The EMC information storage products segment revenues include information storage systems and platform-based software revenues. Information storage systems revenues were $1,147.9 and $1,068.7 for the second quarters of 2006 and 2005, respectively, representing an increase of 7.4% and were $2,370.5 and $2,094.7 for the first six months of 2006 and 2005, respectively, representing an increase of 13.2%. The increase for both periods was due to greater demand for these products attributable to wider acceptance of information lifecycle management-based solutions, a broadened product portfolio and increased demand for IT infrastructure. The percentage increase in information storage systems revenues was lower for the second quarter of 2006 due to the timing of orders and mix of orders received. The magnitude of orders we received towards the end of the second quarter of 2006 for our information storage systems impacted our ability to fulfill all the orders before the end of the quarter. Additionally, the mix of high-end storage product line sales orders received near the end of the second quarter of 2006 shifted more

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS - (Continued)

towards our newest generation product line compared to our prior generation product line than we originally anticipated, and as a result, we did not have the appropriate mix of inventory on hand to fill all such sales orders. Platform-based software revenues were $291.1 and $312.8 for the second quarters of 2006 and 2005, respectively, representing a decrease of 7.0% and were $563.9 and $597.3 for the first six months of 2006 and 2005, respectively, representing a decrease of 5.6%. Platform-based software revenues consist of revenues from software whose operation generally controls and enables functions that take place within an EMC storage system. The decrease in platform-based software revenues for both the three and six months ended June 30, 2006 was attributable to a change in the mix of mid-range information storage systems sold resulting in more units with lower software content. Additionally, a greater portion of the high-end information storage systems sold during the three and six months ended June 30, 2006 compared to the same periods in 2005 were sold to consolidate customers information storage systems. We generally realize a lower level of platform software revenue on sales to customers who have previously licensed our platform software.

The EMC multi-platform software segment revenues include software license, software maintenance, other services revenues and systems revenues. Software licenses revenues were $277.1 and $240.9 for the second quarters of 2006 and 2005, respectively, representing an increase of 15.0% and were $534.0 and $488.6 for the first six months of 2006 and 2005, respectively, representing an increase of 9.3%. Software license revenue for the three months ended June 30, 2006 increased due to higher demand for content management and backup and archive software. Software license revenue for the six months ended June 30, 2006 increased due to higher demand for content management software, partially offset by lower demand for resource management software and backup and archive software. Software maintenance and other services revenues were $204.2 and $167.4 for the second quarters of 2006 and 2005, respectively, representing an increase of 22.0% and were $391.4 and $321.0 for the first six months of 2006 and 2005, respectively, representing an increase of 21.9%. The increase in software maintenance and other services revenues for the three and six months ended June 30, 2006 was primarily attributable to higher software maintenance revenues.

The EMC services segment revenues include platform-based software and hardware maintenance and professional services revenues. EMC services revenues increased in both the three and six months ended June 30, 2006 compared to the same periods in 2005 due to greater demand for our platform-based software maintenance contracts. Additionally, increased demand for professional services, largely to support and implement information lifecycle management-based solutions, contributed to the increase.

The VMware segment revenues include software license, software maintenance and other services revenues. Software license revenues were $113.8 and $65.9 for the second quarters of 2006 and 2005, respectively, representing an increase of 72.7% and were $205.7 and $128.2 for the first six months of 2006 and 2005, respectively, representing an increase of 60.4%. The revenue increase for both the three and six months ended June 30, 2006 was attributable to increased demand for virtual infrastructure software and the introduction of new product offerings. Software maintenance and services revenues were $43.7 and $25.0 for the second quarters of 2006 and 2005, respectively, representing an increase of 74.5% and were $82.8 and $42.8 for the first six months of 2006 and 2005, respectively, representing an increase of 93.5%. The revenue increase was primarily due to higher software maintenance revenues associated with the growth in sales of virtualization software product offerings.

The Other businesses segment revenues consist of revenues from AViiON maintenance services. These revenues are expected to continue to decline in future years, as we have discontinued selling AViiON servers.

Revenues by geography were as follows:

	For the Three Months Ended		
	June 30, 2006	June 30, 2005	% Change
United States	$ 1,453.0	$ 1,333.9	8.9%
Europe, Middle East and Africa	742.8	663.1	12.0
Asia Pacific	263.4	257.7	2.2
Latin America, Mexico and Canada	115.3	90.1	28.0

	For the Six Months Ended June 30, 2006	June 30, 2005	% Change
United States	$ 2,899.4	$ 2,609.9	11.1%
Europe, Middle East and Africa	1,492.8	1,304.1	14.5
Asia Pacific	514.7	505.5	1.8
Latin America, Mexico and Canada	218.3	168.4	29.6

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS - (Continued)

Revenue increased in the three and six months ended June 30, 2006 compared to the same periods in 2005 in all of our markets due to greater demand for our products and services. The lower growth rate in the Asia Pacific markets for both periods was primarily attributable to lower levels of demand in Japan. Changes in exchange rates adversely impacted revenue growth by 1.1% and 1.6% for the three and six months ended June 30, 2006, respectively. The impact of the change in rates was most significant in the European market, primarily Germany, France, Italy and the United Kingdom.

Costs and Expenses

The following table presents our costs and expenses, other income and net income.

	For the Three Months Ended			
	June 30, 2006	June 30, 2005	$ Change	% Change
Cost of revenue:				
EMC information storage products	$ 808.2	$ 757.3	$ 50.9	6.7%
EMC multi-platform software	96.3	83.1	13.2	15.9
EMC services	250.5	212.9	37.6	17.7
VMware	22.2	11.3	10.9	96.5
Other businesses	1.1	4.2	(3.1)	(73.8)
Corporate reconciling items	38.3	19.3	19.0	98.4
Total cost of revenue	1,216.5	1,088.2	128.3	11.8
Gross margins:				
EMC information storage products	630.8	624.3	6.5	1.0
EMC multi-platform software	388.7	325.1	63.6	19.6
EMC services	240.4	242.7	(2.3)	(0.9)
VMware	135.3	79.6	55.7	70.0
Other businesses	1.1	4.3	(3.2)	(74.4)
Corporate reconciling items	(38.3)	(19.3)	(19.0)	(98.4)
Total gross margin	1,358.0	1,256.6	101.4	8.1
Operating expenses:				
Research and development	299.4	253.3	46.1	18.2
Selling, general and administrative	782.0	642.7	139.3	21.7
Restructuring and other special charges	12.0		12.0	NM
Total operating expenses	1,093.5	896.0	197.5	22.0
Operating income	264.5	360.6	(96.1)	(26.7)
Investment income, interest expense and other expenses, net	61.6	40.4	21.2	52.5
Income before income taxes	326.1	401.1	(75.0)	(18.7)
Provision for income taxes	47.0	107.7	(60.7)	(56.4)
Cumulative effect of a change in accounting principle				

Net income	$ 279.1	$ 293.4	$ (14.3)	(4.9)%

NM not measurable

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	For the Six Months Ended			
	June 30, 2006	June 30, 2005	$ Change	% Change
Cost of revenue:				
EMC information storage products	$ 1,638.8	$ 1,505.6	$ 133.2	8.8%
EMC multi-platform software	197.3	159.0	38.3	24.1
EMC services	475.0	423.8	51.2	12.1
VMware	40.5	20.0	20.5	102.5
Other businesses	3.1	9.9	(6.8)	(68.7)
Corporate reconciling items	79.2	38.9	40.3	103.6
Total cost of revenue	2,433.9	2,157.1	276.8	12.8
Gross margins:				
EMC information storage products	1,295.6	1,186.4	109.2	9.2
EMC multi-platform software	736.1	650.6	85.5	13.1
EMC services	488.8	472.9	15.9	3.4
VMware	248.0	151.0	97.0	64.2
Other businesses	2.0	8.8	(6.8)	(77.3)
Corporate reconciling items	(79.2)	(38.9)	(40.3)	(103.6)
Total gross margin	2,691.3	2,430.9	260.4	10.7
Operating expenses:				
Research and development	582.9	487.6	95.3	19.5
Selling, general and administrative	1,530.2	1,258.4	271.8	21.6
Restructuring and other special charges	10.8	1.0	9.8	980.0
Total operating expenses	2,123.9	1,747.0	376.9	21.6
Operating income	567.3	683.9	(116.6)	(17.0)
Investment income, interest expense and other expenses, net	124.1	79.1	45.0	56.9
Income before income taxes	691.4	763.0	(71.6)	(9.4)
Provision for income taxes	136.5	199.8	(63.3)	(31.7)
Cumulative effect of a change in accounting principle	(3.4)		(3.4)	NM
Net income	$ 551.5	$ 563.2	$ (11.7)	(2.1)%

NM not measurable

Gross Margins

Our overall gross margin percentages were 52.7% and 53.6% for the second quarters of 2006 and 2005, respectively. Incremental stock-based compensation expense recognized within cost of product sales and cost of services as a result of adopting FAS No. 123R was $13.7 for the second quarter of 2006, negatively impacting our overall gross margin by 0.6%. Additionally, our overall gross margin was negatively impacted by 0.2% from increases in intangible amortization expense associated with acquisitions that occurred over the past year. Our overall gross margin percentages were 52.5% and 53.0% for the first six months of June 30, 2006 and 2005, respectively. Incremental stock-based compensation expense recognized within cost of product sales and cost of services as a result of adopting FAS No. 123R was $30.5 for the six months ended June 30, 2006, negatively impacting our overall gross margin by 0.6%. Other than the impact of adopting FAS No. 123R, our

gross margins remained relatively consistent between periods.

For reporting purposes, stock-based compensation is recognized as a corporate expense and is not allocated among our various operating segments. The corporate reconciling items were added during the three and six months ended June 30, 2006 to capture stock-based compensation and acquisition-related intangible asset amortization expenses which management does not use in evaluating the performance of its operating segments. As a result, the information provided for our gross margins by individual segment was prepared on a comparable basis for the three and six months ended June 30, 2006 and 2005.

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The gross margin percentages for the EMC information storage products segment were 43.8% and 45.2% for the second quarters of 2006 and 2005, respectively. The primary factor contributing to the decline in the gross margin percentage was a decline in software license revenues, which decreased as a percentage of total segment revenues from 22.6% during the second quarter of 2005 to 20.2% during the second quarter of 2006. Software license revenues generally provide a higher gross margin percentage than systems revenues. The gross margin percentages for the EMC information storage products segment remained relatively constant at 44.2% and 44.1% for the first six months of 2006 and 2005, respectively.

The gross margin percentages for the EMC multi-platform software segment were 80.1% and 79.6% for the second quarters of 2006 and 2005, respectively. The increase in gross margin percentage was primarily due to our ability to grow revenues while controlling our operating cost structure. This favorable impact was partially offset by a reduction in the mix of software license revenues as a percentage of total segment revenues, from 59.0% during the second quarter of 2005 to 57.1% for the corresponding period in 2006. Software license revenues generally provide a higher gross margin percentage than services revenues. The gross margin percentages for the EMC multi-platform software segment were 78.9% and 80.4% for the first six months of 2006 and 2005, respectively. The decrease in gross margin percentage was primarily attributable to a reduction in the mix of software license revenues as a percentage of total segment revenues. Software license revenues as a percentage of total segment revenues declined from 60.4% during the first six months of 2005 to 57.2% for the corresponding period in 2006.

The gross margin percentages for the EMC services segment were 49.0% and 53.3% for the second quarters of 2006 and 2005, respectively, and were 50.7% and 52.7% for the first six months of 2006 and 2005, respectively. The decrease in gross margin percentages for both periods was primarily attributable to lower margins generated on both our maintenance and professional services businesses resulting from increased labor costs.

The gross margin percentages for the VMware segment were 85.9% and 87.6% for the second quarters of 2006 and 2005, respectively, and were 86.0% and 88.3% for the first six months of 2006 and 2005, respectively. The decrease in gross margin percentage for both periods was primarily attributable to a reduction in the mix of software license revenues as a percentage of total segment revenues. Software license revenues as a percentage of total segment revenues declined from 72.5% and 75.0% for the three and six months ended June 30, 2005, respectively, to 72.3% and 71.3% for the corresponding periods in 2006. Software license revenues generally provide a higher gross margin percentage than services revenues.

The gross margin percentages for our Other businesses segment were 49.3% and 50.1% for the second quarters of 2006 and 2005, respectively and were 39.4% and 47.1% for the first six months of 2006 and 2005, respectively. The decrease in the gross margin percentages for both periods resulted from declining revenues in this segment as the volume of AViiON maintenance contracts decreased as a result of our decision to discontinue selling this product.

The corporate reconciling items include stock-based compensation expense and acquisition-related intangible asset amortization expense. These amounts increased from $19.3 and $38.9 for the three and six months ended June 30, 2005, respectively to $38.3 and $79.2 for the corresponding periods in 2006. Acquisition-related intangible asset amortization expense was $17.9 and $36.4 for the three and six months ended June 30, 2005, respectively, compared to $21.9 and $43.4 for the three and six months ended June 30, 2006, respectively. The increase in both periods was due to additional acquisitions which were consummated subsequent to June 30, 2005. Stock-based compensation expense was $1.4 and $2.5 during the three and six months ended June 30, 2005, respectively, compared to $16.4 and $35.7 during the three and six months ended June 30, 2006, respectively. The stock-based compensation expense increase in both periods was due to incremental expense incurred as a result of the adoption of FAS No. 123R.

Research and Development

As a percentage of revenues, R&D expenses were 11.6% and 10.8% for the second quarters of 2006 and 2005, respectively, and were 11.4% and 10.6% for the first six months of 2006 and 2005 respectively. In addition, we incurred $43.2 and $40.4 during the second quarters of 2006 and 2005, respectively, and $96.1 and $82.5 during the first six months of 2006 and 2005, respectively, on software development costs which were capitalized. Incremental stock-based compensation expense recognized as a result of adopting FAS No. 123R was $11.8 and $26.3 for the three and six months ended June 30, 2006, respectively, negatively impacting R&D as a percentage of revenue by 0.5% and 0.5%, respectively. R&D spending includes research and development on new product offerings and enhancements to our software and information storage systems. In

addition to incremental stock-based

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compensation expense, the remaining increase in R&D expenses for the three and six months ended June 30, 2006 compared to the same periods in 2005 consisted of increased investments to support new product development.

Selling, General and Administrative

As a percentage of revenues, selling, general and administrative (SG&A) expenses were 30.4% and 27.4% for the second quarters of 2006 and 2005, respectively, and were 29.9% and 27.4% for the first six months of 2006 and 2005, respectively. Incremental stock-based compensation expense recognized as a result of adopting FAS No. 123R was $34.0 and $71.7 for the three and six months ended June 30, 2006, respectively, negatively impacting SG&A as a percentage of revenues by 1.3% and 1.4%, respectively. In addition to incremental stock-based compensation expense, the majority of the increase in SG&A expenses for the three and six months ended June 30, 2006 compared to the same periods in 2005 consisted of increases to support our newly acquired higher growth businesses. Incremental SG&A expenses for the quarter ended June 30, 2006 over the quarter ended June 30, 2005 were $32.0 for VMware, $16.8 for our content management business and $23.1 for other newly acquired businesses. Incremental SG&A expenses for the six months ended June 30, 2006 over the six months ended June 30, 2005 were $54.8 for VMware, $29.4 for our content management business and $43.1 for other newly acquired businesses. The expense increases were primarily incremental selling costs and salaries and benefits associated with personnel for these businesses.

Restructuring and Other Special Charges

During the three months ended June 30, 2006, we incurred restructuring and other special charges of $12.0. This amount included a $12.4 IPR&D charge related to our acquisitions during this timeframe and a $0.4 charge associated with vacating leased facilities, partially offset by a net reduction of $0.8 from our prior restructuring programs.

For the six months ended June 30, 2006, we recorded restructuring and other special charges of $10.8. This amount consisted of a $12.4 IPR&D charge, a $0.4 charge associated with vacating leased facilities, partially offset by a net reduction from our prior restructuring programs of $2.0. This reduction was primarily attributable to lower than expected severance payments, partially offset by higher costs associated with vacating leased facilities.

The activity for the 2006, 2005 and prior restructuring programs for the three and six months ended June 30, 2006 and 2005, respectively, is presented below:

2006 Restructuring Program

Three Months Ended June 30, 2006

Category	Balance as of March 31, 2006	Initial Provision	Utilization	Balance as of June 30, 2006
Consolidation of excess facilities	$	$ 0.4	$	$ 0.4
Total	$	$ 0.4	$	$ 0.4

Six Months Ended June 30, 2006

Category	Balance as of December 31, 2005	Initial Provision	Utilization	Balance as of June 30, 2006
Consolidation of excess facilities	$	$ 0.4	$	$ 0.4
Total	$	$ 0.4	$	$ 0.4

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2005 Restructuring Programs

Three Months Ended June 30, 2006

Category	Balance as of March 31, 2006	Adjustment to the Provision	Utilization	Balance as of June 30, 2006
Workforce reductions	$ 60.8	$ (0.8)	$ (15.8)	$ 44.2
Consolidation of excess facilities	0.1			0.1
Total	$ 60.9	$ (0.8)	$ (15.8)	$ 44.3

Six Months Ended June 30, 2006

Category	Balance as of December 31, 2005	Adjustment to the Provision	Utilization	Balance as of June 30, 2006
Workforce reductions	$ 79.8	$ (1.2)	$ (34.4)	$ 44.2
Consolidation of excess facilities		0.2	(0.1)	0.1
Total	$ 79.8	$ (0.9)	$ (34.5)	$ 44.3

Three Months Ended June 30, 2005

Category	Balance as of March 31, 2005	Adjustment to the Provision	Utilization	Balance as of June 30, 2005
Workforce reductions	$ 2.8	$	$ (0.7)	$ 2.1
Total	$ 2.8	$	$ (0.7)	$ 2.1

Six Months Ended June 30, 2005

Category	Balance as of December 31, 2004	Adjustment to the Provision	Utilization	Balance as of June 30, 2005

Workforce reductions	$	$ 3.1	$ (1.0)	$ 2.1
Total	$	$ 3.1	$ (1.0)	$ 2.1

The 2005 restructuring programs included two separate reductions in workforce, one that commenced in the first quarter of 2005 that covered approximately 60 employees and a second which commenced in the fourth quarter of 2005 that covered approximately 1,000 employees. As of June 30, 2006, we had terminated approximately 625 employees under these restructuring programs.

Prior Restructuring Programs

We implemented restructuring programs from 1998 through 2004. The activity for these programs for the three and six months ended June 30, 2006 and 2005, respectively, is presented below:

Three Months Ended June 30, 2006

Category	**Balance as of March 31, 2006**	**Adjustment to the Provision**	**Utilization**	**Balance as of June 30, 2006**
Workforce reductions	$ 6.5	$ (0.6)	$ (1.4)	$ 4.5
Consolidation of excess facilities	60.6	0.6	(4.2)	57.0
Total	$ 67.1	$	$ (5.6)	$ 61.5

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Six Months Ended June 30, 2006

Category	Balance as of December 31, 2005	Adjustment to the Provision	Utilization	Balance as of June 30, 2006
Workforce reductions	$ 9.4	$ (1.9)	$ (3.1)	$ 4.5
Consolidation of excess facilities	65.4	0.8	(9.2)	57.0
Total	$ 74.8	$ (1.0)	$ (12.3)	$ 61.5

Three Months Ended June 30, 2005

Category	Balance as of March 31, 2005	Adjustment to the Provision	Utilization	Balance as of June 30, 2005
Workforce reductions	$ 18.8	$	$ (2.5)	$ 16.3
Consolidation of excess facilities	80.9		(11.6)	69.3
Total	$ 99.7	$	$ (14.1)	$ 85.6

Six Months Ended June 30, 2005

Category	Balance as of December 31, 2004	Adjustment to the Provision	Utilization	Balance as of June 30, 2005
Workforce reductions	$ 22.3	$	$ (6.0)	$ 16.3
Consolidation of excess facilities	92.9	(5.2)	(18.4)	69.3
Total	$ 115.3	$ (5.2)	$ (24.4)	$ 85.6

Adjustments to the provision during the three and six months ended June 30, 2006 were primarily attributable to higher costs associated with vacating leased facilities, partially offset by lower than anticipated severance payments. Substantially all employees included in the 2004 and prior restructuring programs have been terminated. The remaining balance owed for the consolidation of excess facilities represents lease obligations on vacated facilities. These amounts are expected to be paid through 2015.

The adjustment to the provision for the six months ended June 30, 2005 was primarily attributable to lower than expected costs associated with vacating excess facilities.

Investment Income

Investment income was $61.7 and $43.5 for the second quarters of 2006 and 2005, respectively, and was $123.5 and $86.5 for the first six months of 2006 and 2005, respectively. Investment income was earned primarily from investments in cash and cash equivalents and short and long-term investments. Investment income increased during the three and six months ended June 30, 2006 compared to the same periods in 2005 due primarily to greater yields on investments and, to a lesser extent, decreased realized losses on investments. The increase in investment income for the six months ended June 30, 2006 compared to the same period in 2005 was partially offset by lower average outstanding cash and investment balances, primarily due to a significant increase in repurchases of our common stock in the open market. The weighted average return on investments, excluding realized gains, was 4.3% and 3.3% for the second quarters of 2006 and 2005, respectively and was 4.1% and 3.2% for the first six months of 2006 and 2005, respectively. Realized losses were $8.0 and $16.2 for the second quarters of 2006 and 2005, respectively, and were $14.9 and $26.6 for the first six months of 2006 and 2005, respectively.

Other Income (Expense), Net

Other income (expense), net was $0.5 and $(1.1) for the second quarters of 2006 and 2005, respectively, and was $3.2 and $(3.4) for the first six months of 2006 and 2005, respectively. The increase in other income for both periods was primarily attributable to a decrease in foreign currency transaction losses during the three and six months ended June 30, 2006 compared to the same periods in 2005. Additionally, other income for the six months ended June 30, 2006 compared to the same period in 2005 was favorably impacted by higher gains from the sales of strategic investments.

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Provision for Income Taxes

Our effective income tax rate was 14.4% and 19.7% for the three and six months ended June 30, 2006, respectively. The effective income tax rate is based upon the estimated income for the year, the composition of the income in different countries, and adjustments, if any, in the applicable quarterly periods for the potential tax consequences, benefits, resolutions of tax audits or other discrete tax items.

For the three and six months ended June 30, 2006, the effective tax rate varied from the statutory tax rate as a result of the mix of income attributable to foreign versus domestic jurisdictions. Our aggregate income tax rate in foreign jurisdictions is lower than our income tax rate in the United States. Additionally, during the three and six months ended June 30, 2006, we recognized tax benefits of $33.3 and $44.7, respectively. The $33.3 benefit recognized during the second quarter of 2006 resulted primarily from the favorable resolution of certain income tax audits. The benefit recognized during the six months ended June 30, 2006 also includes an $11.4 benefit that resulted primarily from a reduction in certain income tax contingencies. Partially offsetting these benefits were non-deductible IPR&D charges totaling $12.4 incurred in connection with several acquisitions made during the second quarter of 2006.

Our effective income tax rate was 26.9% for the three months ended June 30, 2005 and 26.2% for the six months ended June 30, 2005. For both periods, the effective tax rate varied from the statutory tax rate as a result of the mix of income attributable to foreign versus domestic jurisdictions. Additionally, for the six months ended June 30, 2005 we recognized a tax benefit of $7.4, primarily from a reduction in certain income tax contingencies. Partially offsetting this benefit was a non-deductible IPR&D charge of $3.1 incurred in connection with a business acquisition. We expect our income tax rate for the remainder of 2006 to be approximately 26%, however the rate is subject to change based on the percent of our income derived in different countries and adjustments, if any, for the potential tax consequences, benefits or resolutions of tax audits.

Financial Condition

Cash provided by operating activities was $1,029.2 and $1,028.8 for the six months ended June 30, 2006 and 2005, respectively. Cash received from customers was $5,423.0 and $4,722.5 for the six months ended June 30, 2006 and 2005, respectively. The increase was attributable to higher sales volume and greater cash proceeds from the sale of maintenance contracts. Cash paid to suppliers and employees was $4,124.7 and $3,761.9 for the six months ended June 30, 2006 and 2005, respectively. The increase was partially attributable to higher headcount. Total headcount was approximately 28,400 and 24,600 at June 30, 2006 and 2005, respectively. The majority of the headcount increase was due to the general growth of the business, as well as the acquisitions consummated subsequent to June 30, 2005. Greater levels of inventory purchases resulting from the introduction of next generation storage systems also contributed to the increased amounts of payments to suppliers. Inventory increased from $724.8 at December 31, 2005 to $763.8 at June 30, 2006. The increase was primarily attributable to higher inventory levels for new products to support our product transitions. Cash received from dividends and interest was $134.9 and $111.1 for the six months ended June 30, 2006 and 2005, respectively. The improvement was due to higher rates of return received on our cash, cash equivalents and short and long-term investments. For the six months ended June 30, 2006 and 2005, we paid $401.4 and $37.7, respectively, in income taxes. The payments for both periods represent our net payouts of international, federal and state income tax liabilities, primarily associated with the remainder of income taxes due for taxable income earned in fiscal years 2005 and 2004, respectively, and estimated tax payments associated with taxable income earned during the six months ended June 30, 2006 and 2005, respectively. Our tax payments for the six months ended June 30, 2006 were higher compared to the six months ended June 30, 2005 due to a combination of higher pre-tax income and a reduction in the amount of net operating losses available to reduce our taxable income.

Cash used for investing activities was $456.8 and $485.5 for the six months ended June 30, 2006 and 2005, respectively. Cash paid for business acquisitions, net of cash acquired for the six months ended June 30, 2006 was $296.7 compared to $262.1 for the six months ended June 30, 2005. Capital additions were $316.1 and $253.7 for the six months ended June 30, 2006 and 2005, respectively. The increase in capital spending during the first six months of 2006 compared to the same period in 2005 was attributable to various IT initiatives to further integrate our acquisitions, to enable us to more effectively service our growing customer base and implement new infrastructure to support the overall growth of the business. Capitalized software development costs were $96.1 and $82.5 for the first six months of 2006 and 2005, respectively. Net purchases and maturities of investments were $266.1 and $115.0 for the six months ended June 30, 2006 and 2005, respectively. This activity varies from period to period based upon our cash collections, cash requirements and maturity dates of our investments.

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As of June 29, 2006, we entered into a definitive agreement to acquire all of the outstanding capital stock of RSA Security Inc. (RSA). Under the terms of the agreement, we will pay $28.00 per share in cash in exchange for each share of RSA for an aggregate purchase price of approximately $2,100.0, net of RSA s existing cash balance. The acquisition is expected to be completed late in the third quarter or early in the fourth quarter of 2006, subject to customary closing conditions and regulatory approvals.

Cash used for financing activities was $1,363.3 and $134.0 for the six months ended June 30, 2006 and 2005, respectively. Our principal financing activity has been the repurchase of our common stock in the open market. Our Board of Directors has authorized the repurchase of 500.0 million shares of our common stock. For the six months ended June 30, 2006, we repurchased 106.0 million shares of our common stock. Cumulatively, we have repurchased 238.5 million shares at a total cost of $3,100.0. We spent $1,375.6 and $270.9 on such repurchases during the six months ended June 30, 2006 and 2005, respectively. Total payments of long-term and short-term obligations for the six months ended June 30, 2006 were $127.4, which consisted primarily of $126.1 to redeem the outstanding principal balance of our $125.0 4.5% Senior Convertible Notes due April 1, 2007 (the Notes). We plan to spend $3,000.0 in 2006 on common stock repurchases and the redemption of the Notes. We generated $129.9 and $136.8 during the six months ended June 30 2006 and 2005, respectively, from the exercise of stock options.

Depreciation and amortization expense was $364.6 and $316.5 for the first six months of 2006 and 2005, respectively. The increase in depreciation and amortization expense was primarily attributable to intangible amortization expense associated with the acquisitions consummated after June 30, 2005. Higher amortization expense associated with a growth in capitalized software development costs also contributed to the increase. Lastly, a general growth in our property, plant and equipment balances resulted in greater depreciation expense.

Cash and cash equivalents and short and long-term investments were $6,285.0 and $7,355.5 at June 30, 2006 and December 31, 2005, respectively. We invest our excess cash in U.S. government and agency obligations, U.S. corporate debt securities, asset and mortgage-backed securities, bank loans, auction rate securities and foreign debt securities. At June 30, 2006, the fair value of our short and long-term investments was $4,724.7 compared to an amortized cost basis of $4,784.9. Included in our portfolio are securities where the amortized cost basis exceeded the fair value by $61.9. Management regularly reviews the portfolio to evaluate whether any impairments are other-than-temporary. Management considers the type of securities held, market conditions, the length of the impairment, magnitude of the impairment and ability to hold the investment to maturity to make its evaluation. As of June 30, 2006, management did not consider any impairments to be other-than-temporary.

We have a credit line of $50.0 in the United States. At June 30, 2006, 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 June 30, 2006, we were in compliance with the covenants.

We derive revenues from both selling and leasing our products. We customarily sell the notes receivable resulting from our leasing activity. Generally, we do not retain any recourse on the sale of these notes.

Based on our current operating and capital expenditure forecasts, we believe that the combination of funds currently available, funds to be generated from operations and our available lines of credit will be adequate to finance our ongoing operations for at least the next 12 months.

To date, inflation has not had a material impact on our financial results.

New Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN No. 48). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FAS No. 109, Accounting for Income Taxes. FIN No. 48 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. FIN No. 48 will be effective for us

beginning in 2007. We are currently evaluating the potential impact of FIN No. 48 on our financial position and results of operations.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For quantitative and qualitative disclosures about market risk affecting us, see Item 7A Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K filed with the SEC on March 6, 2006. Our exposure to market risks has not changed materially from that set forth in our Annual Report.

Item 4. CONTROLS AND PROCEDURES

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

Changes in Internal Control Over Financial Reporting. During the quarter ended June 30, 2006, we implemented modifications to our customer order process within our Enterprise Resource Planning system. The modifications enable orders that have been separately processed by certain of the businesses that EMC has acquired to be processed on the same system as EMC s traditional orders. There was no other change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We are a party to various litigation matters which we consider routine and incidental to our business. Management does not expect the results of any of these actions to have a material adverse effect on our business, results of operations or financial condition.

Item 1A. RISK FACTORS

The risk factors that appear below could materially affect our business, financial condition and results of operations. The risks and uncertainties described below are not the only risks and uncertainties facing us. Our business is also subject to general risks and uncertainties that affect many other companies.

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

We are subject to the effects of general global economic and market conditions. If these conditions deteriorate, our business, results of operations or financial condition could be materially adversely affected.

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

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

Component costs, competitive pricing, and sales volume and mix 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 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 storage-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. Such price competition may result in pressure on our product prices, and reductions in product prices may have a material adverse effect on our revenues, gross margins and earnings. We currently believe that pricing pressures are likely to continue.

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

We purchase or license many sophisticated components and products from one or a limited number of qualified suppliers, including some of our competitors. These components and products include disk drives, high density memory components, power supplies and software developed and maintained by third parties. We have experienced delivery delays from time to time because of high industry demand or the inability of some vendors to consistently meet our quality or delivery requirements. 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

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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.

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

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

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

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

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

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.

Risks associated with the development and introduction of new products include delays in development and changes in data storage, networking virtualization, infrastructure management 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

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

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

- 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, management or virtualization 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 internal controls

- accurately forecasting revenues

- training our sales force to sell more software and services

- successfully integrating new acquisitions

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

- controlling expenses
- managing our manufacturing capacity, real estate facilities and other assets
- 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 business could be materially adversely affected as a result of war or acts of terrorism.

Terrorist acts or acts of war 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 conflicts may also cause damage or disruption to transportation and communication systems and to our ability to manage logistics in such an environment, including receipt of components and distribution of products.

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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.

In addition, we have historically used stock options and other equity awards as key elements of our compensation packages for many of our employees. Under recent accounting rules, we are required to treat stock-based compensation as an expense. In addition, changes to regulatory or stock exchange rules and regulations and in institutional shareholder voting guidelines on equity plans may result in additional requirements or limitations on our equity plans. As a result, we may change our compensation practices with respect to the number of shares and type of equity awards used. The value of our equity awards may also be adversely affected by the volatility of our stock price. These factors may impair our ability to attract, retain and motivate employees.

Changes in generally accepted accounting principles may adversely affect us.

From time to time, the Financial Standards Accounting Board (FASB) promulgates new accounting principles that are applicable to us. In the first quarter of 2006, we adopted FAS No. 123R. This standard requires us to expense the fair value of stock options issued to employees in our basic financial statements. This has adversely affected our results of operations. We currently estimate that the standard will adversely impact earnings for 2006 by approximately $0.09 per diluted share. The FASB has proposed or promulgated other standards, including modifying the accounting for income taxes, accounting for business combinations and fair value measurements. These proposed standards or other proposals could have a material adverse impact on our 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 six months of the following year
- seasonal influences

Our uneven sales pattern also makes it extremely difficult to predict near-term demand and adjust manufacturing capacity 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

- customers may 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 or extreme weather conditions, could impact our ability to ship products in a timely manner. Delays in product shipping or an unexpected decline in revenues without a corresponding and timely slowdown in expenses, could intensify the impact of these factors on our business, results of operations and financial condition.

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

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

In addition to our direct sales force, we have agreements in place with many distributors, systems integrators, resellers and original equipment manufacturers to market and sell our products and services. We may, from time to time, derive a significant percentage of our revenues from such distribution channels. For the quarter ended June 30, 2006, Dell Inc., one of our channel partners, accounted for 14% of our revenues. 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 or if the financial condition of our channel partners were to weaken. 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 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.

Changes in foreign conditions could impair our international operations.

A substantial portion of our revenues is derived from sales outside the United States. 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, including changes in foreign currency exchange rates, changes in a specific country s or region s political or economic conditions, trade restrictions, import or export licensing requirements, the overlap of different tax structures or changes in international tax laws, changes in regulatory requirements, compliance with a variety of foreign laws and regulations and longer payment cycles in certain countries.

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

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

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

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

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

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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.

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

From time to time in the ordinary course of our business, we may become involved in various legal proceedings, 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.

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. 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.

Changes in regulations could materially adversely affect us.

Our business, results of operations or financial conditions 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. Compliance with this legislation may divert management s attention and resources and cause us to incur significant expense. 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.

Our stock price is volatile.

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

- speculation in the press or investment community

In addition, our stock price is affected by general economic and market conditions and has been negatively affected by unfavorable global economic and market conditions. If such conditions deteriorate, our stock price could decline.

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Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ISSUER PURCHASES OF EQUITY SECURITIES IN THE SECOND QUARTER OF 2006

Period	Total Number of Shares Purchased[1]	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
April 1, 2006 April 30, 2006	13,787,170	$ 13.61	13,781,348	339,793,647
May 1, 2006 May 31, 2006	40,209,500	$ 12.98	40,204,457	299,589,190
June 1, 2006 June 30, 2006	24,260,055	$ 11.96	23,765,460	275,823,730
Total	78,256,725[2]	$ 12.77	77,751,265	275,823,730

(1) Except as noted in note (2), all shares were purchased in open-market transactions pursuant to previously announced authorizations by our Board of Directors in October 2002 and April 2006 to repurchase 500.0 million shares of our common stock. These repurchase authorizations do not have a fixed termination date.

(2) Includes an aggregate of 505,460 shares withheld from employees for the payment of taxes.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

EMC s Annual Meeting of Shareholders was held on May 4, 2006. There was no solicitation in opposition to management s nominees as listed in EMC s proxy statement, and all such nominees were elected as Class I directors for a three-year term. The shareholders ratified the selection by the Audit Committee of the Board of Directors of PricewaterhouseCoopers LLP as EMC s independent auditors for the fiscal year ending December 31, 2006. The shareholders voted on four shareholder proposals, which related to election of directors by majority vote, pay-for-superior-performance, annual elections of directors and EMC s Audit Committee, each described in EMC s Proxy Statement. The results of the votes for each of these proposals were as follows:

1. Election of Class I Directors:

	For	Withheld
Gail Deegan	1,935,908,424	104,013,453
Olli-Pekka Kallasvuo	1,989,079,456	50,842,421
Windle B. Priem	1,907,443,066	132,478,811
Alfred M. Zeien	1,918,014,427	121,907,450

The following directors continued in office after the Annual Meeting of Shareholders: Michael W. Brown, Michael J. Cronin, John R. Egan, W. Paul Fitzgerald, David N. Strohm and Joseph M. Tucci.

2. Ratification of the selection by the Audit Committee of the Board of Directors of PricewaterhouseCoopers LLP as EMC s independent auditors for the fiscal year ending December 31, 2006:

For:	1,984,075,473
Against:	41,375,791
Abstain:	14,470,613
Broker Non-Vote:	0

3. Shareholder proposal relating to election of directors by majority vote:

For:	846,290,093
Against:	714,713,021
Abstain:	19,754,561
Broker Non-Vote:	459,164,202

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4. Shareholder proposal relating to pay-for-superior-performance:

For:	762,762,155
Against:	799,456,965
Abstain:	18,538,555
Broker Non-Vote:	459,164,202

5. Shareholder proposal relating to annual elections of directors:

For:	1,316,429,193
Against:	246,851,215
Abstain:	17,477,267
Broker Non-Vote:	459,164,202

6. Shareholder proposal relating to EMC s Audit Committee:

For:	426,364,644
Against:	1,133,580,222
Abstain:	20,812,809
Broker Non-Vote:	459,164,202

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

(a) Exhibits

See index to Exhibits on page 48 of this report.

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SIGNATURES

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

EMC CORPORATION

Date: August 10, 2006

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

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EXHIBIT INDEX

3.1	Restated Articles of Organization of EMC Corporation, as amended. (1)
3.2	Amended and Restated By-laws of EMC Corporation. (2)
4.1	Form of Stock Certificate. (1)
10.1	Agreement and Plan of Merger among EMC Corporation, Entrust Merger Corporation and RSA Security Inc. (3)
31.1	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (3)
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. (3)
31.3	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)
31.4	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. (3)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (3)
32.3	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)
32.4	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)

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(1) Incorporated by reference to EMC Corporation s Annual Report on Form 10-K filed March 6, 2006 (No. 33-03656).
(2) Incorporated by reference to EMC Corporation s Current Report on Form 8-K filed February 16, 2006 (No. 33-03656).
(3) Incorporated by reference to EMC Corporation s Quarterly Report on Form 10-Q filed August 4, 2006 (No. 33-03656).