Tax Treatment of Shares Acquired Under EMC Stock Option Plan

These rules are fairly complex and the actual results may vary from person to person, depending on their country of taxation and their individual tax situations. The following is an overview of the law as it stands today in the United States. Toward the end of this document information is provided for employees subject to taxation in countries outside the United States.

Regarding U.S. employees, you should check with your personal tax advisor to determine if there have been any changes to these provisions enacted subsequently. This section also does not address any specific gift tax issues.

Definition of Disqualifying Dispositions

The exercise of a NQO is always taxed at the time of exercise as regular income. The appropriate taxes are withheld at the time of exercise by the broker and reported to EMC on your behalf.

There is no taxable event upon the exercise of an ISO, however, a disposition by sale (of the stock acquired by exercise) is a taxable event. In order to obtain the capital gain benefits of the ISO provisions, the employee must meet the Holding Period requirements, which are as follows:

- beginning on the date of grant, the holding period requirements are:
  1. two years from the date of grant, AND
  2. one year from the date of exercise.

If the Holding Period requirements are met, then the entire gain from the sale of shares is taxable at the long-term capital gains rates. If the employee fails to meet the Holding Period requirements, a "Disqualifying Disposition" has been made and the Exercise Gain is deemed to be compensation to the employee. **As a result, EMC must track and record all known Disqualifying Dispositions, and the employee has a corresponding responsibility, under the terms of the Grant document, to report such Disqualifying Dispositions to the Company. A Disqualifying Disposition Survey worksheet will be mailed to you each year and must be completed in order to comply with the IRS rules.**

Definitions

- ***Disposition*** - Generally, any change of ownership, whether by sale or gift, (other than having the shares issued in joint names), is considered a Disposition.

- ***Exercise*** **-** The actual purchase of the shares from EMC, at the price stated in the Grant document.

- ***Exercise Gain*** - The smaller of:

  (a) the Fair Market Value (FMV) on the date of Exercise, less the Exercise Price
  or
  (b) the gross proceeds received upon sale, (less the broker's fee) less the exercise price.

- ***Exercise Price*** - The price at which shares may be exercised. For ISO's, this price may not be less than the Fair Market Value on the date of Grant.

- ***Grant*** - The award of the right to purchase shares, in the future, at a price (the Exercise Price) determined on the date of Grant.

- ***Holding Period*** - Beginning on the date of Exercise. Holding period requirement for capital gain treatment is:
  (a) two years from the date of Grant, **and**
  (b) one year from the date of Exercise

- ***Regular Tax*** - Individual income tax liability, as determined on Form 1040.

- ***Vesting*** - The ability to Exercise the right to purchase the shares granted. Under EMC's plan, the shares "Vest" over five years at the rate of 20% at the end of each year.

- ***Long-Term Capital Gain Holding Period*** - Held for more than one year

- ***Short-Term Capital Gain Holding Period*** - Held for less than or equal to one year

ISO Taxability

At Grant	No taxable event
Upon Vesting	No taxable event
At Exercise	No regular tax. AMT (Alternative Minimum Tax) could apply depending on individual tax situation. See discussion on page XX.
At Disposition	Sale Without meeting holding requirements - Exercise Gain is Compensation income subject to regular tax. Any balance Is short-term capital gain. If holding requirements are met, the entire gain is taxed at long-term capital gain rates. Gift During the holding period, a gift is treated as if shares were sold to the recipient at Fair Market Value on the date of Exercise and the Exercise Gain is considered compensation Income to the employee. After the holding period, there is no impact on the employee's regular taxable income. Normal gift tax rules and reporting requirements apply.

NQO Taxability

At Grant	No taxable event
Upon Vesting	No taxable event
At Exercise	Gain is taxed as regular income and withheld by the broker. The tax is reported to EMC on your behalf.

Reporting Requirements

Disqualified Dispositions

- W-2 Reporting

  - IRS rules **require** the Company to report the Exercise Gain as compensation income on the employee's W-2 in the year the Disqualifying Disposition occurs**, and the employee has a corresponding responsibility to report any such Disqualified Disposition to the Company**. This is true for both ISO and NQO. However, EMC will receive information on NQO reporting directly from the broker. You have no responsibility to report to EMC on NQO exercises only on ISO exercises.

  The Exercise Gain is added to your wage income, in Box 1, and is also noted in Box 14 on the W-2, labeled "Misc. Taxable Comp.".

  Under current rules which expire December 31, 2002, there is no federal or state income tax withholding requirements.

- Tax Return Filing

  The sale of the shares must be reported on Schedule D of your personal tax return. You will receive a Form 1099-B from the Broker (UBS PaineWebber) which indicates the gross proceeds from the sale of the shares.

  The amount on the Form 1099-B should be entered as the gross proceeds on Schedule D. In calculating the amount of capital gain income or loss, the cost basis of the shares to be put on Schedule D is equal to the sum of the Exercise Price and the Exercise Gain reported as other compensation on the employee's W-2. The difference between the gross proceeds and the cost basis of the shares is reported as a capital gain on Schedule D.

  Even though the Exercise Gain is added to your wage income in Box 1 on the W-2, this same exercise gain combined with the exercise price equals the cost basis of the shares on Schedule D.

  Please consult your personal tax advisor to ensure that you have reported this information accurately on your return. The calculation in formula format is as follows:

  COST BASIS = Exercise price + exercise gain reported in W-2

  CAPITAL GAIN or LOSS = Net Sales Proceed – Cost Basis

Qualified Disposition

- Reporting Requirements

  If the Holding Period requirements are met, the Company has no W-2 reporting obligation, nor does the employee have any obligation to report such Dispositions to the Company.

- Estimated Income Tax Payments:

  As a result of income arising from the disqualifying disposition of options, you may be required to make estimated tax payments. You should consult with your personal tax advisor to ensure that you pay in, during the year, sufficient amounts, either through withholding or estimated tax payments, to avoid the penalties associated with the underpayment of estimated taxes.

Alternative Minimum Tax

Alternative Minimum Tax is a separate, parallel tax system that may cause a current tax liability, even though, for Regular Tax purposes, there has been no taxable event.

The calculation of AMT (on Form 6251) begins with Regular Taxable income from Form 1040, which is subject to various adjustments, and is increased by tax preference items, including the Exercise Gain on shares purchased, but not sold during a tax year.

The resulting Alternative Minimum Taxable Income (AMTI) is decreased by an exemption amount (based upon filing status) and the resulting balance is subject to the AMT tax rates of 26% on the first $175,000 and 28% on the balance.

If AMT exceeds the Regular Tax, then the difference between the AMT and the Regular Tax must be paid, in addition to the Regular Tax.

Generally, this AMT may be carried forward and used to offset Regular Tax liabilities in future years. However, the ability to use the carry forward is subject to annual limitations, and subsequent Exercises, together with the mechanics of the AMT rules, may result in a large carry forward that take many, many years to utilize.

Because of the potential adverse impact of AMT, if you are planning to Exercise and hold ISO shares, you should consult with your personal tax advisor BEFORE you Exercise.

The following examples will, hopefully, make the above discussion a little clearer. Assume the following events have occurred for one share.

EVENT	**Date**	**FMV**
Granted	January 21, 1998	$50/Share (Exercise Price)
Vested	January 21, 1999	Not relevant for tax purposes
Exercised	March 1, 1999	$60/Share

Example 1 - Share Sold for More than FMV

Share is sold on September 1, 1999 for $75.

There is no taxable event on the Grant, Vesting or Exercise of the share.

Upon the sale, because the share was not held for the entire Holding Period, a Disqualifying Disposition was made.

Of the $25 of total gain, the Exercise Gains of $10 ($60 - $50) is deemed to be compensation income, and must be reported on the W-2, and the remaining $15 ($25 - $10) is short-term capital gain income.

Example 2 - Share Sold for Less then FMV

Share is sold on September 1, 1999 for $55, and the Broker’s fee is 10¢/share.

There is a Disqualifying Disposition, but the Exercise Gain to be reported as compensation in this case is limited to $4.90 ($55 - 10¢ - $50), and there is no capital gain or loss. (See definition of Exercise Gain).

Example 3 - Share Sold in Less than Twelve Months, but not in Year of Exercise

The same facts as either Example 1 or Example 2 except that share is sold on January 15, 2000.

The results would be the same for Regular Tax purposes in 2000.

The Exercise Gain would be a preference item for Alternative Minimum Tax purposes in 1999, and depending on the specific tax situation, there may be an additional AMT liability with your 1999 tax return.

Example 4 - Share Held for more than Twelve Months

The same facts as either Example 1 or Example 2 except that share is sold on March 15, 2000.

Because the Holding Period requirements were met, there is no Disqualifying Disposition, and all of the income is taxed at long term capital gains rates in 2000. However, the Exercise Gain would still be a preference item for AMT purposes in 1999.

Tax Consequences of EMC Employees located outside the United States who participate in EMC's Incentive Stock Option Plan

Stock option grant, vesting, exercise or subsequent sale of EMC shares in conjunction with your country of residency for tax purposes (e.g. permanent resident, US expatriate, foreign nationals or third country nationals) can have different tax consequences from country to country. EMC will ensure that it complies with all applicable payroll reporting requirements on your behalf. It is your responsibility to ensure that your Individual Tax Return accurately reflects stock income, when applicable.

Your Human Resources staff can advise you as to how EMC complies with all applicable payroll reporting requirements or direct you to the appropriate resource.   We also urge you to check with your personal tax advisor.