EMC CORP
Form 10-Q
August 05, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(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, 2015

OR

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

For the transition period from to

Commission File Number 1-9853

EMC CORPORATION
(Exact name of registrant as specified in its charter)

Massachusetts (State or other jurisdiction of incorporation or organization)	04-2680009 (I.R.S. Employer Identification Number)
176 South Street Hopkinton, Massachusetts (Address of principal executive offices)	01748 (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 o

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

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

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

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

The number of shares of common stock, par value $.01 per share, of the registrant outstanding as of June 30, 2015 was 1,924,726,357.

Table of Contents

EMC CORPORATION

FACTORS THAT MAY AFFECT FUTURE RESULTS

This Quarterly Report on Form 10-Q contains forward-looking statements, within the meaning of the Federal securities laws, about our business and prospects. The forward-looking statements do not include the potential impact of any mergers, acquisitions, divestitures, securities offerings or business combinations that may be announced or closed after the date hereof. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "plans," "intends," "expects," "goals" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these words. Our future results may differ materially from our past results and from those projected in the forward-looking statements due to various uncertainties and risks, including those described in Item 1A of Part II (Risk Factors). The forward-looking statements speak only as of the date of this Quarterly Report and undue reliance should not be placed on these statements. We disclaim any obligation to update any forward-looking statements contained herein after the date of this Quarterly Report.

Table of Contents

PART I
FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS
EMC CORPORATION
CONSOLIDATED BALANCE SHEETS
(in millions, except per share amounts)
(unaudited)

	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$5,803	$ 6,343
Short-term investments	1,939	1,978
Accounts and notes receivable, less allowance for doubtful accounts of $71 and $72	3,345	4,413
Inventories	1,224	1,276
Deferred income taxes	1,061	1,070
Other current assets	715	653
Total current assets	14,087	15,733
Long-term investments	7,041	6,334
Property, plant and equipment, net	3,788	3,766
Intangible assets, net	1,953	2,125
Goodwill	16,185	16,134
Other assets, net	1,813	1,767
Total assets	$44,867	$ 45,859
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,219	$ 1,696
Accrued expenses	2,823	3,141
Income taxes payable	160	852
Short-term debt (See Note 4)	1,948	—
Deferred revenue	6,357	6,021
Total current liabilities	12,507	11,710
Income taxes payable	318	306
Deferred revenue	4,344	4,144
Deferred income taxes	230	274
Long-term debt (See Note 4)	5,472	5,469
Other liabilities	434	431
Total liabilities	23,305	22,334
Commitments and contingencies (See Note 13)		
Shareholders' equity:		
Preferred stock, par value $0.01; authorized 25 shares; none outstanding	—	—
Common stock, par value $0.01; authorized 6,000 shares; issued and outstanding 1,925 and 1,985 shares	19	20
Additional paid-in capital	—	—
Retained earnings	20,516	22,242
Accumulated other comprehensive loss, net	(458)	(366)
Total EMC Corporation's shareholders' equity	20,077	21,896

Non-controlling interests	1,485	1,629
Total shareholders’ equity	21,562	23,525
Total liabilities and shareholders’ equity	$44,867	$ 45,859

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

Table of Contents

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Revenues:				
Product sales	$3,225	$3,319	$6,130	$6,327
Services	2,772	2,561	5,480	5,032
	5,997	5,880	11,610	11,359
Costs and expenses:				
Cost of product sales	1,433	1,372	2,762	2,668
Cost of services	977	854	1,922	1,690
Research and development	782	740	1,570	1,472
Selling, general and administrative	2,102	2,010	4,139	3,861
Restructuring and acquisition-related charges	23	30	158	149
Operating income	680	874	1,059	1,519
Non-operating income (expense):				
Investment income	26	35	51	71
Interest expense	(41)	(34)	(81)	(68)
Other income (expense), net	24	(66)	34	(142)
Total non-operating income (expense)	9	(65)	4	(139)
Income before provision for income taxes	689	809	1,063	1,380
Income tax provision	170	187	252	326
Net income	519	622	811	1,054
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(32)	(33)	(72)	(74)
Net income attributable to EMC Corporation	$487	$589	$739	$980
Net income per weighted average share, basic attributable to EMC Corporation common shareholders	$0.25	$0.29	$0.38	$0.48
Net income per weighted average share, diluted attributable to EMC Corporation common shareholders	$0.25	$0.28	$0.37	$0.47
Weighted average shares, basic	1,927	2,037	1,950	2,033
Weighted average shares, diluted	1,947	2,064	1,971	2,070
Cash dividends declared per common share	$0.12	$0.12	$0.23	$0.22

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

Table of Contents

EMC CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)
(unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Net income	$519	$622	$811	$1,054
Other comprehensive income (loss), net of taxes (benefits):				
Foreign currency translation adjustments	18	9	(86)	4
Changes in market value of investments:				
Changes in unrealized gains (losses), net of taxes (benefits) of $0, $35, $12 and $49	1	59	20	83
Reclassification adjustment for net losses (gains) realized in net income, net of benefits (taxes) of $(7), $(3), $(13) and $(6)	(13)	(6)	(21)	(11)
Net change in market value of investments	(12)	53	(1)	72
Changes in market value of derivatives:				
Changes in unrealized gains (losses), net of taxes (benefits) of $(2), $1, $1 and $0	(5)	2	9	1
Reclassification adjustment for net losses (gains) included in net income, net of benefits (taxes) of $2, $0, $2 and $0	—	(1)	(11)	(3)
Net change in the market value of derivatives	(5)	1	(2)	(2)
Other comprehensive income (loss)	1	63	(89)	74
Comprehensive income	520	685	722	1,128
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(32)	(33)	(72)	(74)
Less: Other comprehensive (income) loss attributable to the non-controlling interest in VMware, Inc.	(2)	—	(3)	(1)
Comprehensive income attributable to EMC Corporation	$486	$652	$647	$1,053

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

Table of Contents

EMC CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

	For the Six Months Ended June 30, 2015	June 30, 2014
Cash flows from operating activities:		
Cash received from customers	$13,137	$12,644
Cash paid to suppliers and employees	(10,076)	(9,320)
Dividends and interest received	68	97
Interest paid	(67)	—
Income taxes paid	(949)	(829)
Net cash provided by operating activities	2,113	2,592
Cash flows from investing activities:		
Additions to property, plant and equipment	(449)	(472)
Capitalized software development costs	(262)	(245)
Purchases of short- and long-term available-for-sale securities	(4,212)	(5,765)
Sales of short- and long-term available-for-sale securities	2,667	4,974
Maturities of short- and long-term available-for-sale securities	913	1,716
Business acquisitions, net of cash acquired	(61)	(1,694)
Purchases of strategic and other related investments	(160)	(83)
Sales of strategic and other related investments	109	10
Joint venture funding	—	(63)
Increase in restricted cash	—	(76)
Net cash used in investing activities	(1,455)	(1,698)
Cash flows from financing activities:		
Proceeds from the issuance of EMC's common stock	170	234
Proceeds from the issuance of VMware's common stock	69	99
EMC repurchase of EMC's common stock	(2,063)	(994)
VMware repurchase of VMware's common stock	(850)	(407)
Excess tax benefits from stock-based compensation	54	45
Payment of long-term obligations	—	(1,665)
Net proceeds from the issuance of short-term obligations	1,948	—
Dividend payment	(456)	(407)
Contributions from non-controlling interests	4	—
Net cash used in financing activities	(1,124)	(3,095)
Effect of exchange rate changes on cash and cash equivalents	(74)	(3)
Net decrease in cash and cash equivalents	(540)	(2,204)
Cash and cash equivalents at beginning of period	6,343	7,891
Cash and cash equivalents at end of period	$5,803	$5,687
Reconciliation of net income to net cash provided by operating activities:		
Net income	$811	$1,054
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	942	903
Non-cash restructuring and other special charges	13	9
Stock-based compensation expense	502	498
Provision for doubtful accounts	25	2

Deferred income taxes, net	(48)	(168)
Excess tax benefits from stock-based compensation	(54)	(45)
Gain on previously held interests in strategic investments and joint venture	—	(45)
Impairment of strategic investment	—	33
Other, net	18	23
Changes in assets and liabilities, net of acquisitions:		
Accounts and notes receivable	1,017	549
Inventories	(45)	(183)
Other assets	(3)	96
Accounts payable	(443)	(241)
Accrued expenses	(480)	(279)
Income taxes payable	(650)	(336)
Deferred revenue	509	701
Other liabilities	(1)	21
Net cash provided by operating activities	$2,113	$2,592

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

Table of Contents

EMC CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in millions)
(unaudited)

For the six months ended June 30, 2015:

	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Shareholders' Equity
Balance, January 1, 2015	1,985	$20	$—	$22,242	$ (366)	$ 1,629	$ 23,525
Stock issued through stock option and stock purchase plans	10	—	170	—	—	—	170
Tax benefit from stock options exercised	—	—	43	—	—	—	43
Restricted stock grants, cancellations and withholdings, net	6	—	(71)	—	—	—	(71)
Repurchase of common stock	(76)	(1)	(20)	(2,012)	—	—	(2,033)
Stock-based compensation	—	—	560	—	—	—	560
Cash dividends declared	—	—	—	(453)	—	—	(453)
Impact from equity transactions of non-controlling interests	—	—	(682)	—	—	(219)	(901)
Change in market value of investments	—	—	—	—	(5)	4	(1)
Change in market value of derivatives	—	—	—	—	(1)	(1)	(2)
Translation adjustment	—	—	—	—	(86)	—	(86)
Net income	—	—	—	739	—	72	811
Balance, June 30, 2015	1,925	$19	$—	$20,516	$ (458)	$ 1,485	$ 21,562

For the six months ended June 30, 2014:

	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Shareholders' Equity
Balance, January 1, 2014	2,020	$20	$1,406	$21,114	$ (239)	$ 1,485	$ 23,786
Stock issued through stock option and stock purchase plans	16	—	234	—	—	—	234
Tax benefit from stock options exercised	—	—	43	—	—	—	43
Restricted stock grants, cancellations and withholdings, net	3	—	(28)	—	—	—	(28)
Repurchase of common stock	(39)	—	(1,000)	—	—	—	(1,000)

Stock options issued in business acquisitions	—	—	33	—	—	—	33
Stock-based compensation	—	—	506	—	—	—	506
Cash dividends declared	—	—	—	(446)	—	—	(446)
Impact from equity transactions of non-controlling interests	—	—	(376)	—	—	(25)	(401)
Actuarial gain on pension plan	—	—	—	—	1	—	1
Change in market value of investments	—	—	—	—	71	1	72
Change in market value of derivatives	—	—	—	—	(2)	—	(2)
Translation adjustment	—	—	—	—	4	—	4
Convertible debt conversions and warrant settlement	29	—	—	—	—	—	—
Net income	—	—	—	980	—	74	1,054
Balance, June 30, 2014	2,029	$ 20	$ 818	$ 21,648	$ (165)	$ 1,535	$ 23,856

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

Table of Contents
EMC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation
Company
EMC Corporation ("EMC") and its subsidiaries develop, deliver and support the information technology ("IT") industry's broadest range of information infrastructure and virtual infrastructure technologies, solutions and services. EMC manages the Company as part of a federation of businesses: EMC Information Infrastructure, VMware Virtual Infrastructure and Pivotal.
EMC's Information Infrastructure business provides a foundation for organizations to store, manage, protect, analyze and secure ever-increasing quantities of information, while at the same time improving business agility, lowering cost, and enhancing competitive advantage. EMC's Information Infrastructure business comprises three segments – Information Storage, Enterprise Content Division and RSA Information Security.
EMC's VMware Virtual Infrastructure business, which is represented by EMC's majority equity stake in VMware, Inc. ("VMware"), is the leader in virtualization infrastructure solutions utilized by organizations to help them transform the way they build, deliver and consume IT resources. VMware's virtualization infrastructure solutions, which include a suite of products and services designed to deliver a software-defined data center, run on industry-standard desktop computers and servers and support a wide range of operating system and application environments, as well as networking and storage infrastructures.
EMC's Pivotal business ("Pivotal") unites strategic technology, people and programs from EMC and VMware and has built a new platform comprised of next-generation data, agile development practices and a cloud independent platform-as-a-service ("PaaS"). These capabilities are made available through Pivotal's three primary offerings: Pivotal Cloud Foundry, the Pivotal Big Data Suite and Pivotal Labs.
General
The accompanying interim consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. These consolidated financial statements include the accounts of EMC, its wholly owned subsidiaries, as well as VMware and Pivotal, companies majority-owned by EMC. All intercompany transactions have been eliminated. Certain information and footnote disclosures normally included in our annual consolidated financial statements have been condensed or omitted. Accordingly, these interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2014 which are contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2015.
The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for any future period or the entire fiscal year. The interim consolidated financial statements, in the opinion of management, reflect all adjustments necessary to fairly state the results as of and for the three- and six-month periods ended June 30, 2015 and 2014.
Net Income Per Share
Basic net income per weighted average share has been computed using the weighted average number of shares of common stock outstanding during the period. Diluted net income per weighted average share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Common equivalent shares consist of stock options, restricted stock and restricted stock units, and in the three and six months ended June 30, 2014, the shares issuable under our $1.725 billion 1.75% convertible senior notes due 2013 (the "2013 Notes") and the associated warrants. Additionally, for purposes of calculating diluted net income per weighted average share, net income is adjusted for the difference between VMware's reported diluted and basic net income per weighted average share, if any, multiplied by the number of shares of VMware held by EMC.

Investments in Joint Ventures

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

In 2009, Cisco and EMC formed VCE Company LLC (“VCE”), with investments from VMware and Intel. In December 2014, EMC acquired the controlling interest in VCE and, since the date of acquisition, has consolidated VCE’s financial position and results of operations as part of EMC’s consolidated financial statements.

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

Prior to the acquisition of the controlling interest in VCE, we considered VCE a variable interest entity and accounted for the investment under the equity method with our portion of the gains and losses recognized in other expense, net in the consolidated income statements for the majority of 2014. Our consolidated share of VCE's losses, based upon our portion of the overall funding, was approximately 63% for the three and six months ended June 30, 2014. During the three and six months ended June 30, 2014, we recorded $85 million and $160 million, respectively, in net losses from VCE and $172 million and $342 million, respectively, in revenue from sales of product and services to VCE.

Reclassifications

In April 2015, the Financial Accounting Standards Board ("FASB") issued updated guidance to clarify the required presentation of debt issuance costs. The amended guidance requires that debt issuance costs be presented in the balance sheet as a direct reduction from the carrying amount of the related debt liability rather than as an asset. We adopted the guidance during the second quarter of 2015, and accordingly, reclassified the debt issuance costs on our consolidated balance sheets. There was no impact to our consolidated income statements or statements of cash flows.

Recent Accounting Pronouncements

In May 2014, the FASB issued a standard on revenue recognition providing a single, comprehensive revenue recognition model for all contracts with customers. The revenue standard is based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard, as amended, is effective beginning January 1, 2018, with early adoption permitted but not earlier than the original effective date of January 1, 2017. The principles may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. We are currently evaluating the adoption method options and the impact of the new guidance on our consolidated financial statements.

2. Non-controlling Interests

The non-controlling interests' share of equity in VMware is reflected as a component of the non-controlling interests in the accompanying consolidated balance sheets and was $1,380 million and $1,524 million as of June 30, 2015 and December 31, 2014, respectively. At June 30, 2015, EMC held approximately 97% of the combined voting power of VMware's outstanding common stock and approximately 81% of the economic interest in VMware.

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

	For the Six Months Ended	
	June 30, 2015	June 30, 2014
Net income attributable to EMC Corporation	$739	$980
Transfers (to) from the non-controlling interests in VMware, Inc.:		
Increase in EMC Corporation's additional paid-in-capital for VMware's equity issuances	29	51
Decrease in EMC Corporation's additional paid-in-capital for VMware's other equity activity	(711)	(427)
Net transfers (to) from non-controlling interest	(682)	(376)
Change from net income attributable to EMC Corporation and transfers from the non-controlling interest in VMware, Inc.	$57	$604

The non-controlling interests' share of equity in Pivotal is reflected as a component of the non-controlling interests in the accompanying consolidated balance sheets as $105 million at both June 30, 2015 and December 31, 2014. At June 30, 2015, EMC consolidated held approximately 84% of the economic interest in Pivotal. General Electric

Company’s (“GE”) interest in Pivotal is in the form of a preferred equity instrument. Consequently, there is no net income attributable to non-controlling interest related to Pivotal on the consolidated income statements. Additionally, due to the terms of the preferred instrument, GE’s non-controlling interest on the consolidated balance sheets is generally not impacted by Pivotal’s equity related activity. The preferred equity instrument is convertible into common shares at GE’s election at any time.

Table of Contents

3. Business Combinations, Intangibles and Goodwill

During the six months ended June 30, 2015, EMC acquired three businesses which were not material either individually or in the aggregate to our June 30, 2015 results. Complementing the Information Storage segment, we acquired all of the outstanding capital stock of Renasar Technologies, Inc., a provider of extensible physical middleware, and CloudLink, a provider of cloud data security software. Complementing our Pivotal segment, we acquired all of the outstanding capital stock of Quickstep Technologies, LLC, a query execution technology developer. Also during the six months ended June 30, 2015, VMware acquired all of the outstanding capital stock of Immidio B.V.

The aggregate consideration for these four acquisitions was $65 million, which consisted of $64 million of cash consideration, net of cash acquired in the second quarter of 2015. The consideration was allocated to the fair value of the assets acquired and liabilities assumed based on estimated fair values as of the respective acquisition dates. The aggregate allocation to goodwill, intangibles, and net liabilities was approximately $49 million, $24 million and $8 million, respectively.

The intangible assets acquired were primarily comprised of purchased developed technology which have a weighted-average amortization period of 3.6 years. Most of our intangible assets are being amortized based upon the pattern in which the economic benefits of the intangible assets are being utilized; the remainder are amortized on a straight-line basis. Goodwill is calculated as the excess of the consideration over the fair value of the net assets, including intangible assets, and is primarily related to expected synergies from the transaction. The goodwill is not deductible for U.S. federal income tax purposes. The results of these acquisitions have been included in the consolidated financial statements from the date of purchase. Pro forma results of operations have not been presented as the results of the acquired companies were not material to our consolidated results of operations for the three and six months ended June 30, 2015 or 2014.

Intangible Assets

Intangible assets, excluding goodwill, as of June 30, 2015 and December 31, 2014 consist of (tables in millions):

	June 30, 2015			
	Gross Carrying Amount	Accumulated Amortization		Net Book Value
Purchased technology	$2,961	$(1,788	)	$1,173
Patents	225	(124	)	101
Software licenses	110	(94	)	16
Trademarks and tradenames	226	(146	)	80
Customer relationships and customer lists	1,473	(1,032	)	441
Leasehold interest	152	(18	)	134
Other	46	(38	)	8
Total intangible assets, excluding goodwill	$5,193	$(3,240	)	$1,953

	December 31, 2014			
	Gross Carrying Amount	Accumulated Amortization		Net Book Value
Purchased technology	$2,935	$(1,668	)	$1,267
Patents	225	(117	)	108
Software licenses	108	(93	)	15
Trademarks and tradenames	226	(136	)	90

Customer relationships and customer lists	1,473	(974)	499
Leasehold interest	152	(16)	136
Other	44	(34)	10
Total intangible assets, excluding goodwill	$5,163	$(3,038)	$2,125

EMC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Goodwill
Changes in the carrying amount of goodwill, net, on a consolidated basis and by segment, for the six months ended June 30, 2015 consist of (table in millions):

	Six Months Ended June 30, 2015					
	Information Storage	Enterprise Content Division	RSA Information Security	Pivotal	VMware Virtual Infrastructure	Total
Balance, beginning of the period	$8,266	$1,486	$2,203	$171	$4,008	$16,134
Goodwill resulting from acquisitions	29	—	—	3	17	49
Finalization of purchase price allocations and other, net	2	—	—	—	—	2
Balance, end of the period	$8,297	$1,486	$2,203	$174	$4,025	$16,185

4. Debt

Short-Term Debt
On February 27, 2015, we entered into a credit agreement with the lenders named therein, Citibank, N.A., as Administrative Agent, Bank of America, N.A. and JPMorgan Chase Bank, N.A., as Syndication Agents, and Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities LLC, as Joint Lead Arrangers and Joint Bookrunners (the "Credit Agreement"). The Credit Agreement provides for a $2.5 billion unsecured revolving credit facility to be used for general corporate purposes that is scheduled to mature on February 27, 2020. At our option, subject to certain conditions, any loan under the Credit Agreement will bear interest at a rate equal to, either (i) the LIBOR Rate or (ii) the Base Rate (defined as the highest of (a) the Federal Funds rate plus 0.50%, (b) Citibank, N.A.'s "prime rate" as announced from time to time, or (c) one-month LIBOR plus 1.00%), plus, in each case the Applicable Margin, as defined in the Credit Agreement. The Credit Agreement contains customary representations and warranties, covenants and events of default. We may also, upon the agreement of the existing lenders and/or additional lenders not currently parties to the agreement, increase the commitments under the credit facility by up to an additional $1.0 billion. In addition, we may request to extend the maturity date of the credit facility, subject to certain conditions, for additional one-year periods. As of June 30, 2015, we were in compliance with customary required covenants and we had not borrowed any funds under the credit facility.
On March 23, 2015, we established a short-term debt financing program whereby we may issue short-term unsecured commercial paper notes ("Commercial Paper"). Amounts available under the program may be borrowed, repaid and re-borrowed from time to time, with the aggregate face or principal amount of the notes outstanding at any time not to exceed $2.5 billion. The Commercial Paper will have maturities of up to 397 days from the date of issue. The net proceeds from the issuance of the Commercial Paper are expected to be used for general corporate purposes. As of June 30, 2015, we were in compliance with customary required covenants. At June 30, 2015, we had $1,948 million of Commercial Paper outstanding, with a weighted-average interest rate of 0.18% and maturities ranging from 47 days to 88 days at the time of issuance. Commercial Paper outstanding is presented in short-term debt in the consolidated balance sheets, and the issuances and proceeds of the Commercial Paper are presented on a net basis in the consolidated statement of cash flows due to their short term nature. At August 5, 2015, we had $2,119 million of Commercial Paper outstanding.

Long-Term Debt

In June 2013, we issued $5.5 billion aggregate principal amount of senior notes (collectively, the "Notes") which pay a fixed rate of interest semi-annually in arrears. The proceeds from the Notes have been used to satisfy the cash payment obligation of the converted 2013 Notes as well as for general corporate purposes including stock repurchases, business acquisitions, dividend payments, working capital needs and other business opportunities. The Notes of each series are senior, unsecured obligations of EMC and are not convertible or exchangeable. Unless previously purchased and canceled, we will repay the Notes of each series at 100% of the principal amount, together with accrued and unpaid interest thereon, at maturity. However, EMC has the right to redeem any or all of the Notes at specified redemption prices. As of June 30, 2015, we were in compliance with all debt covenants, which are customary in nature.

Our long-term debt as of June 30, 2015 was as follows (dollars in millions):

Senior Notes	Issued at Discount to Par		Carrying Value	
$2.5 billion 1.875% Notes due 2018	99.943	%	$2,499	
$2.0 billion 2.650% Notes due 2020	99.760	%	1,996	
$1.0 billion 3.375% Notes due 2023	99.925	%	1,000	
			$5,495	
Debt issuance costs			(23	)
Net long-term debt			$5,472	

The unamortized discount on the Notes consists of $5 million, which will be fully amortized by June 1, 2023. The effective interest rate on the Notes was 2.55% for both the three and six months ended June 30, 2015.

Convertible Debt

In November 2006, we issued the 2013 Notes. These 2013 Notes matured and a majority of the noteholders exercised their right to convert the outstanding 2013 Notes as of December 31, 2013. Pursuant to the settlement terms, the majority of the converted 2013 Notes were settled on January 7, 2014. At that time, we paid the noteholders $1.7 billion in cash for the outstanding principal and 35 million shares for the $858 million in excess of the conversion value over the principal amount, as prescribed by the terms of the 2013 Notes.

With respect to the conversion value in excess of the principal amount of the 2013 Notes converted, we elected to settle the excess with shares of our common stock based on a daily conversion value, determined in accordance with the indenture, calculated on a proportionate basis for each day of the relevant 20-day observation period. The actual conversion rate for the 2013 Notes was 62.6978 shares of our common stock per one thousand dollars of principal amount of 2013 Notes, which represents a 26.5% conversion premium from the date the 2013 Notes were issued and is equivalent to a conversion price of approximately $15.95 per share of our common stock.
In connection with the issuance of the 2013 Notes, we entered into separate convertible note hedge transactions with respect to our common stock (the "Purchased Options"). The Purchased Options allowed us to receive shares of our common stock and/or cash related to the excess conversion value that we would pay to the holders of the 2013 Notes upon conversion. We exercised 108 million of the purchased options in conjunction with the planned settlements of the 2013 Notes and received 35 million shares of net settlement on January 7, 2014, representing the excess conversion value of the options.

We also entered into separate transactions in which we sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 215 million shares of our common stock at an exercise price of approximately $19.55 per share of our common stock. We received aggregate proceeds of $391 million from the sale of the associated warrants. Upon exercise, the value of the warrants was required to be settled in shares. Approximately half of the associated warrants were exercised in 2012 and the remaining 109 million associated warrants were exercised between February 18, 2014 and March 17, 2014 and were settled with 29 million shares of our common stock.

The Purchased Options and associated warrants had the effect of increasing the conversion price of the 2013 Notes to approximately $19.31 per share of our common stock, representing an approximate 53% conversion premium based on the closing price of $12.61 per share of our common stock on November 13, 2006, which was the issuance date of the 2013 Notes.
Interest Rate Swap Contracts

In 2010, EMC entered into interest rate swap contracts with an aggregate notional amount of approximately $900 million. These swaps were designated as cash flow hedges of the semi-annual interest payments of the forecasted issuance of debt in 2011. In 2012, the interest rate swap contracts were settled and accumulated losses of $176 million were deferred as they were expected to be realized over the life of the new debt issued under the related interest rate swap contracts. The accumulated realized losses related to the settled swaps included in accumulated other comprehensive income are being realized over the remaining life of the ten year Notes. During the three and six months ended June 30, 2015, $6 million and $11 million, respectively, in losses were reclassified from other comprehensive income and recognized as interest expense in the consolidated income statements.

5. Fair Value of Financial Assets and Liabilities

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

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Most of our fixed income securities are classified as Level 2, with the exception of some of our U.S. government and agency obligations and our investments in publicly traded equity securities, which are classified as Level 1, and all of our auction rate securities, which are classified as Level 3. In addition, our strategic investments held at cost are classified as Level 3. At June 30, 2015, the vast majority of our Level 2 securities were priced by pricing vendors. These pricing vendors utilize the most recent observable market information in pricing these securities or, if specific prices are not available for these securities, use other observable inputs like market transactions involving identical or comparable securities. In the event observable inputs are not available, we assess other factors to determine the security’s market value, including broker quotes or model valuations. Each month, we perform independent price verifications of all of our fixed income holdings. In the event a price fails a pre-established tolerance check, it is researched so that we can assess the cause of the variance to determine what we believe is the appropriate fair market value.

In general, investments with remaining effective maturities of 12 months or less from the balance sheet date are classified as short-term investments. Investments with remaining effective maturities of more than 12 months from the balance sheet date are classified as long-term investments. Our publicly traded equity securities are classified as long-term investments and our strategic investments held at cost are classified as other assets. As a result of the lack of liquidity for auction rate securities, we have classified these as long-term investments as of June 30, 2015 and December 31, 2014. At June 30, 2015 and December 31, 2014, all of our short- and long-term investments, excluding auction rate securities, were recognized at fair value, which was determined based upon observable inputs from our pricing vendors for identical or similar assets. At June 30, 2015 and December 31, 2014, auction rate securities were valued using a discounted cash flow model.

The following tables summarize the composition of our short- and long-term investments at June 30, 2015 and December 31, 2014 (tables in millions):

	June 30, 2015			
	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Aggregate Fair Value
U.S. government and agency obligations	$2,258	$3	$(2)	$2,259
U.S. corporate debt securities	2,421	3	(7)	2,417
High yield corporate debt securities	398	5	(9)	394
Asset-backed securities	36	—	—	36
Municipal obligations	916	1	—	917
Auction rate securities	27	—	(1)	26
Foreign debt securities	2,658	2	(3)	2,657
Total fixed income securities	8,714	14	(22)	8,706
Publicly traded equity securities	187	95	(8)	274
Total	$8,901	$109	$(30)	$8,980

	December 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Aggregate Fair Value
U.S. government and agency obligations	$1,951	$2	$(2)	$1,951
U.S. corporate debt securities	1,998	1	(4)	1,995
High yield corporate debt securities	570	9	(16)	563
Asset-backed securities	53	—	—	53
Municipal obligations	948	2	—	950
Auction rate securities	29	—	(2)	27
Foreign debt securities	2,566	2	(4)	2,564
Total fixed income securities	8,115	16	(28)	8,103
Publicly traded equity securities	117	103	(11)	209
Total	$8,232	$119	$(39)	$8,312

We held approximately $2,657 million in foreign debt securities at June 30, 2015. These securities have an average credit rating of A+, and approximately 5% of these securities are deemed sovereign debt with an average credit rating of AA+. None of the securities deemed sovereign debt are from Argentina, Greece, Italy, Ireland, Portugal, Spain, Cyprus or Puerto Rico.

EMC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following tables represent our fair value hierarchy for our financial assets and liabilities measured at fair value as of June 30, 2015 and December 31, 2014 (tables in millions):

	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Cash	$2,005	$—	$—	$2,005
Cash equivalents	3,769	29	—	3,798
U.S. government and agency obligations	1,232	1,027	—	2,259
U.S. corporate debt securities	—	2,417	—	2,417
High yield corporate debt securities	—	394	—	394
Asset-backed securities	—	36	—	36
Municipal obligations	—	917	—	917
Auction rate securities	—	—	26	26
Foreign debt securities	—	2,657	—	2,657
Publicly traded equity securities	274	—	—	274
Total cash and investments	$7,280	$7,477	$26	$14,783
Other items:				
Strategic investments held at cost	$—	$—	$375	$375
Investment in joint venture	—	—	38	38
Long-term debt carried at discounted cost	—	(5,525)	—	(5,525)
Foreign exchange derivative assets	—	45	—	45
Foreign exchange derivative liabilities	—	(43)	—	(43)
Commodity derivative liabilities	—	(5)	—	(5)

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Cash	$2,022	$—	$—	$2,022
Cash equivalents	3,710	611	—	4,321
U.S. government and agency obligations	1,141	810	—	1,951
U.S. corporate debt securities	—	1,995	—	1,995
High yield corporate debt securities	—	563	—	563
Asset-backed securities	—	53	—	53
Municipal obligations	—	950	—	950
Auction rate securities	—	—	27	27
Foreign debt securities	—	2,564	—	2,564
Publicly traded equity securities	209	—	—	209
Total cash and investments	$7,082	$7,546	$27	$14,655
Other items:				
Strategic investments held at cost	$—	$—	$333	$333
Investment in joint venture	—	—	37	37
Long-term debt carried at discounted cost	—	(5,544)	—	(5,544)
Foreign exchange derivative assets	—	44	—	44
Foreign exchange derivative liabilities	—	(71)	—	(71)
Commodity derivative assets	—	12	—	12

Our auction rate securities are predominantly rated investment grade and are primarily collateralized by student loans. The underlying loans of all but one of our auction rate securities, with a market value of $7 million, have partial guarantees by the U.S. government as part of the Federal Family Education Loan Program ("FFELP") through the U.S. Department of Education. FFELP guarantees at least 95% of the loans which collateralize the auction rate securities. We believe the quality of the collateral underlying most of our auction rate securities will enable us to recover our principal balance.

To determine the estimated fair value of our investment in auction rate securities, we use a discounted cash flow model using a five year time horizon. As of June 30, 2015, the coupon rates used ranged from 0% to 3% and the discount rate was 1%, which rate represents the rate at which similar FFELP backed securities with a five year time horizon outside of the auction rate securities market were trading at June 30, 2015. The assumptions used in preparing the discounted cash flow model include an incremental discount rate for the lack of liquidity in the market ("liquidity discount margin") for an estimated period of time. The discount rate we selected was based on AA-rated banks as the majority of our portfolio is invested in student loans where EMC acts as a financier to these lenders. The liquidity discount margin represents an estimate of the additional return an investor would require for the lack of liquidity of these securities over an estimated five year holding period. The rate used for the discount margin was 1% at both June 30, 2015 and December 31, 2014 due to the narrowing of credit spreads on AA-rated banks during 2014 and into 2015.

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

During the three and six months ended June 30, 2015 and 2014, there were no material changes to the fair value of our auction rate securities.

EMC has a 49% ownership percentage of LenovoEMC Limited, a joint venture with Lenovo that was formed in 2012. We account for our LenovoEMC joint venture using the fair value method of accounting. To determine the estimated fair value at inception of our investment, we used a discounted cash flow model using a three year time horizon, and utilized a discount rate of 6%, which represented the incremental borrowing rate for a market participant. The assumptions used in preparing the discounted cash flow model include an analysis of estimated Lenovo NAS revenue against a prescribed target as well as consideration of the purchase price put and call features included in the joint venture agreement. The put and call features create a floor and a cap on the fair value of the investment. As such, there is a limit to the impact on the fair value that would result from significant changes in the unobservable inputs. We had no changes to the assumptions utilized in the fair value calculation in the second quarter of 2015 and there were no material changes to the fair value of this joint venture during the three and six months ended June 30, 2015 and 2014.

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

Investment Losses

Unrealized losses on investments at June 30, 2015 by investment category and length of time the investment has been in a continuous unrealized loss position are as follows (table in millions):

	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	$664	$(2)	$—	$—	$664	$(2)
U.S. corporate debt securities	1,326	(7)	—	—	1,326	(7)
High yield corporate debt securities	197	(8)	9	(1)	206	(9)
Auction rate securities	—	—	26	(1)	26	(1)
Foreign debt securities	1,389	(3)	—	—	1,389	(3)
Publicly traded equity securities	—	—	20	(8)	20	(8)
Total	$3,576	$(20)	$55	$(10)	$3,631	$(30)

For all of our securities for which the amortized cost basis was greater than the fair value at June 30, 2015, we have concluded that currently we neither plan to sell the security nor is it more likely than not that we would be required to sell the security before

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

its anticipated recovery. In making the determination as to whether the unrealized loss is other-than-temporary, we considered the length of time and extent the investment has been in an unrealized loss position, the financial condition and near-term prospects of the issuers, the issuers' credit rating and the time to maturity.

Contractual Maturities

The contractual maturities of fixed income securities held at June 30, 2015 are as follows (table in millions):

	June 30, 2015	
	Amortized Cost Basis	Aggregate Fair Value
Due within one year	$1,932	$1,932
Due after 1 year through 5 years	5,885	5,886
Due after 5 years through 10 years	559	552
Due after 10 years	338	336
Total	$8,714	$8,706

Short-term investments on the consolidated balance sheet include $7 million in variable rate notes which have contractual maturities in 2015, and are not classified within investments due within one year above.

6. Inventories

Inventories consist of (table in millions):

	June 30, 2015	December 31, 2014
Work-in-process	$551	$627
Finished goods	673	649
	$1,224	$1,276

7. Accounts and Notes Receivable and Allowance for Credit Losses

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

The contractual amounts due under the leases we retained as of June 30, 2015 were as follows (table in millions):

Year	Contractual Amounts Due Under Leases
Due within one year	$74
Due within two years	51
Due within three years	38
Thereafter	1
Total	164
Less: Amounts representing interest	5
Present value	159
Current portion (included in accounts and notes receivable)	70
Long-term portion (included in other assets, net)	$89

Subsequent to June 30, 2015, we sold $6 million of these notes to third parties without recourse.

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

Uncollectible amounts are charged against the allowance account.

In the event we determine that a lease may not be paid, we include in our allowance an amount for the outstanding balance related to the lease receivable. As of June 30, 2015, amounts from lease receivables past due for more than 90 days were not significant.

During the three and six months ended June 30, 2015 and 2014, there were no material changes to our allowance for credit losses related to lease receivables.

Gross lease receivables totaled $164 million and $233 million as of June 30, 2015 and December 31, 2014, respectively, before the allowance. The components of these balances were individually evaluated for impairment and included in our allowance determination as necessary.

8. Property, Plant and Equipment

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

	June 30, 2015	December 31, 2014
Furniture and fixtures	$268	$255
Equipment and software	7,122	6,684
Buildings and improvements	2,348	2,308
Land	173	162
Building construction in progress	83	134
	9,994	9,543
Accumulated depreciation	(6,206)	(5,777)
	$3,788	$3,766

Building construction in progress at June 30, 2015 includes $38 million for facilities not yet placed in service that we are holding for future use.

9. Accrued Expenses

Accrued expenses consist of (table in millions):

	June 30, 2015	December 31, 2014
Salaries and benefits	$1,043	$1,251
Product warranties	189	207
Dividends payable (see Note 11)	233	237
Partner rebates	198	235
Restructuring, current (See Note 12)	156	123
Derivatives	48	75
Other	956	1,013
	$2,823	$3,141

Product Warranties

Systems sales include a standard product warranty. At the time of the sale, we accrue for systems' warranty costs. The initial systems' warranty accrual is based upon our historical experience, expected future costs and specific identification of systems' requirements. Upon sale or expiration of the initial warranty, we may sell additional maintenance contracts to our customers. Revenue from these additional maintenance contracts is included in deferred revenue and recognized ratably over the service period. The following represents the activity in our warranty accrual for the three and six months ended June 30, 2015 and 2014 (table in millions):

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Balance, beginning of the period	$188	$273	$207	$286
Provision	44	32	77	75
Amounts charged to the accrual	(43)	(51)	(95)	(107)
Balance, end of the period	$189	$254	$189	$254

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

10. Income Taxes

Our effective income tax rates were 24.6% and 23.7% for the three and six months ended June 30, 2015, respectively. Our effective income tax rates were 23.1% and 23.6% for the three and six months ended June 30, 2014, respectively. Our effective income tax rate is based upon estimated income before provision for income taxes for the year, composition of the income in different countries, and adjustments, if any, in the applicable quarterly periods for potential tax consequences, benefits and/or resolutions of tax audits or other tax contingencies. For the three and six months ended June 30, 2015, the effective income tax rate varied from the statutory income tax rate principally as a result of the mix of income attributable to foreign versus domestic jurisdictions and state taxes. Our aggregate income tax rate in foreign jurisdictions is lower than our income tax rate in the United States; substantially all of our income before provision for income taxes from foreign operations has been earned by our Irish subsidiaries. For the three and six months ended June 30, 2014, the effective income tax rate varied from the statutory income tax rate principally as a result of the mix of income attributable to foreign versus domestic jurisdictions and state taxes. On December 19, 2014, the Tax Increase Prevention Act was signed into law. Some of the provisions were retroactive to January 1, 2014 including an extension of the U.S. federal tax credit for increasing research activities through December 31, 2014. Our effective income tax rates for the three and six months ended June 30, 2015 and 2014 do not reflect any federal tax credit for increasing research activities.

Our effective income tax rate increased in the three months ended June 30, 2015 from the three months ended June 30, 2014 due primarily to a lower tax rate differential for international jurisdictions partially offset by lower state taxes. There were also differences in change in tax contingency reserves and discrete items, the net impact of which is immaterial. Our effective income tax rate for the six months ended June 30, 2015 was consistent with our effective income tax rate for the six months ended June 30, 2014.

We are routinely under audit by the Internal Revenue Service (the "IRS"). We have concluded all U.S. federal income tax matters for years through 2008. In the third quarter of 2012, the IRS commenced a federal income tax audit for the tax years 2009 and 2010, which is expected to be completed in late 2015. In the first quarter of 2015, the IRS commenced a federal income tax audit for the tax year 2011, which is still in the early stage for information gathering.

We also have income tax audits in process in numerous state, local and international jurisdictions. In our international jurisdictions that comprise a significant portion of our operations, the years that may be examined vary, with the earliest year being 2005. Based on the timing and outcome of examinations of EMC, the result of the expiration of statutes of limitations for specific jurisdictions or the timing and result of ruling requests from taxing authorities, it is reasonably possible that the related unrecognized tax benefits could change from those recorded in our consolidated balance sheets. We anticipate that several of these audits may be finalized within the next twelve months. While we expect the amount of unrecognized tax benefits to change in the next twelve months, we do not expect the change to have a significant impact on our consolidated results of operations or financial position.

11. Shareholders' Equity

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Numerator:				
Net income attributable to EMC Corporation	$487	$589	$739	$980
Incremental dilution from VMware	(1)	(1)	(2)	(3)
Net income – dilution attributable to EMC Corporation	$486	$588	$737	$977
Denominator:				
Weighted average shares, basic	1,927	2,037	1,950	2,033
Weighted common stock equivalents	20	27	21	27
Assumed conversion of the 2013 Notes and associated warrants	—	—	—	10
Weighted average shares, diluted	1,947	2,064	1,971	2,070

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

Concurrent with the issuance of the 2013 Notes, we also entered into separate transactions in which we sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 215 million shares of our common stock at an exercise price of approximately $19.55 per share of our common stock. Approximately half of the associated warrants were exercised in 2012 and the remaining 109 million warrants were exercised between February 18, 2014 and March 17, 2014 and were settled with 29 million shares of our common stock. As such, we included the impact of the remaining outstanding sold warrants in our diluted earnings per share calculation during the six months ended June 30, 2014.

Restricted stock awards, restricted stock units and options to acquire shares of our common stock in the amount of 1 million for both the three and six months ended June 30, 2015, and 1 million and 4 million for the three and six months ended June 30, 2014, respectively, were excluded from the calculation of diluted earnings per share because they were anti-dilutive. The incremental dilution from VMware represents the impact of VMware's dilutive securities on EMC's consolidated diluted net income per share and is calculated by multiplying the difference between VMware's basic and diluted earnings per share by the number of VMware shares owned by EMC.

Repurchase of Common Stock

We utilize both authorized and unissued shares (including repurchased shares) for all issuances under our equity plans. Our Board of Directors authorized the repurchase of 250 million shares of our common stock in February 2013 and an additional 250 million shares of our common stock in December 2014. For the six months ended June 30, 2015, we spent $2.0 billion to repurchase 76 million shares of our common stock. Of the 500 million shares authorized for repurchase, we have repurchased 277 million shares at a total cost of $7.4 billion, leaving a remaining balance of 223 million shares authorized for future repurchases.

VMware's Board of Directors authorized the repurchase of $1.0 billion of VMware's Class A common stock in August 2014 and an additional $1.0 billion of VMware's Class A common stock in January 2015. All shares repurchased under VMware's stock repurchase programs are retired. For the six months ended June 30, 2015, VMware spent $850 million to repurchase 10 million shares of their common stock. Of the $2.0 billion authorized for repurchase, VMware has a remaining balance of $1.1 billion authorized for future repurchases.

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

Cash Dividend on Common Stock
In May 2013, our Board of Directors approved the initiation of a quarterly cash dividend to EMC shareholders of $0.10 per share of common stock and in April 2014, our Board of Directors increased the dividend to $0.115 per share of common stock.
Our Board of Directors declared the following dividends during 2015 and 2014:

Declaration Date	Dividend Per Share	Record Date	Total Amount (in millions)	Payment Date
2015:				
February 27, 2015	$0.115	April 1, 2015	$229	April 23, 2015
May 20, 2015	$0.115	July 1, 2015	$226	July 23, 2015
July 30, 2015	$0.115	October 1, 2015	$—	October 23, 2015
2014:				
February 6, 2014	$0.10	April 1, 2014	$209	April 23, 2014
April 17, 2014	$0.115	July 1, 2014	$237	July 23, 2014
July 30, 2014	$0.115	October 1, 2014	$239	October 23, 2014
December 9, 2014	$0.115	January 2, 2015	$234	January 23, 2015

Accumulated Other Comprehensive Income (Loss)
Changes in accumulated other comprehensive income (loss), which is presented net of tax, for the six months ended June 30, 2015 and 2014 consist of the following (tables in millions):

	Foreign Currency Translation Adjustments	Unrealized Net Gains on Investments	Unrealized Net Losses on Derivatives	Recognition of Actuarial Net Loss from Pension and Other Postretirement Plans	Accumulated Other Comprehensive Income Attributable to the Non-controlling Interest in VMware, Inc.	Total
Balance as of December, 31 2014[(a)]	$ (188)	$ 49	$ (100)	$ (126)	$ (1)	$ (366)
Other comprehensive income (loss) before reclassifications	(86)	20	9	—	(3)	(60)
Net losses (gains) reclassified from accumulated other comprehensive income	—	(21)	(11)	—	—	(32)
Net current period other comprehensive income (loss)	(86)	(1)	(2)	—	(3)	(92)
Balance as of June 30, 2015[(b)]	$ (274)	$ 48	$ (102)	$ (126)	$ (4)	$ (458)

(a) Net of taxes (benefits) of $31 million for unrealized net gains on investments, $(64) million for unrealized net losses on derivatives and $(70) million for actuarial net loss on pension plans.
(b) Net of taxes (benefits) of $31 million for unrealized net gains on investments, $(61) million for unrealized net losses on derivatives and $(70) million for actuarial net loss on pension plans.

21

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

	Foreign Currency Translation Adjustments	Unrealized Net Gains on Investments	Unrealized Net Losses on Derivatives	Recognition of Actuarial Net Loss from Pension and Other Postretirement Plans	Accumulated Other Comprehensive Income Attributable to the Non-controlling Interest in VMware, Inc.	Total
Balance as of December, 31 2013[(a)]	$ (53)	$ 31	$ (106)	$ (110)	$ (1)	$ (239)
Other comprehensive income (loss) before reclassifications	4	83	1	—	(1)	87
Net losses (gains) reclassified from accumulated other comprehensive income	—	(11)	(3)	1	—	(13)
Net current period other comprehensive income (loss)	4	72	(2)	1	(1)	74
Balance as of June 30, 2014[(b)]	$ (49)	$ 103	$ (108)	$ (109)	$ (2)	$ (165)

(a) Net of taxes (benefits) of $18 million for unrealized net gains on investments, $(66) million for unrealized net losses on derivatives and $(61) million for actuarial net loss on pension plans.
(b) Net of taxes (benefits) of $61 million for unrealized net gains on investments, $(66) million for unrealized net losses on derivatives and $(61) million for actuarial net loss on pension plans.

The amounts reclassified out of accumulated other comprehensive income (loss) for the three and six months ended June 30, 2015 and 2014 are as follows (tables in millions):

	For the Three Months Ended		
Accumulated Other Comprehensive Income Components	June 30, 2015	June 30, 2014	Impacted Line Item on Consolidated Income Statements
Net gain on investments:	$ 20	$ 9	Investment income
	(7)	(3)	Provision for income tax
Net of tax	$ 13	$ 6	
Net gain on derivatives:			
Foreign exchange contracts	$ 1	$ 2	Product sales revenue
Foreign exchange contracts	3	(1)	Cost of product sales
Interest rate swap	(6)	—	Other interest expense
Total net gain on derivatives before tax	(2)	1	
	2	—	Provision for income tax
Net of tax	$ —	$ 1	

	For the Six Months Ended		
Accumulated Other Comprehensive Income Components	June 30, 2015	June 30, 2014	Impacted Line Item on Consolidated Income Statements
Net gain on investments:	$ 34	$ 17	Investment income
	(13)	(6)	Provision for income tax

Net of tax	$21	$11	
Net gain on derivatives:			
Foreign exchange contracts	$21	$3	Product sales revenue
Foreign exchange contracts	(1)	—	Cost of product sales
Interest rate swap	(11)	—	Other interest expense
Total net gain on derivatives before tax	9	3	
	2	—	Provision for income tax
Net of tax	$11	$3	

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

12. Restructuring and Acquisition-Related Charges

For the three and six months ended June 30, 2015, we incurred restructuring and acquisition-related charges of $23 million and $158 million, respectively. For the three and six months ended June 30, 2014, we incurred restructuring and acquisition-related charges of $30 million and $149 million, respectively. For the three and six months ended June 30, 2015, EMC incurred $23 million and $133 million, respectively, of restructuring charges, primarily related to our current year restructuring programs, and $2 million and $3 million, respectively, of charges in connection with acquisitions for financial, advisory, legal and accounting services. For the three months ended June 30, 2015, VMware recognized an immaterial credit of $2 million related to its restructuring program, and for the six months ended June 30, 2015, VMware incurred $21 million of restructuring charges, primarily related to its current year restructuring program. For the six months ended June 30, 2015, VMware incurred $1 million of charges in connection with acquisitions for financial, advisory, legal and accounting services. For the three and six months ended June 30, 2014, EMC incurred $29 million and $144 million, respectively, of restructuring charges, primarily related to our 2014 restructuring programs, and during both the three and six months ended June 30, 2014, EMC incurred $2 million of charges in connection with acquisitions for financial, advisory, legal and accounting services. For both the three and six months ended June 30, 2014, VMware recognized a recovery of $1 million related to its restructuring programs. For the six months ended June 30, 2014, VMware incurred $4 million of charges in connection with acquisitions for financial, advisory, legal and accounting services.

In the first and second quarters of 2015, EMC implemented restructuring programs to create further operational efficiencies which will result in workforce reductions of 1,320 and 160 positions, respectively. The actions will impact positions around the globe covering our Information Storage, RSA Information Security, Enterprise Content Division and Pivotal segments. All of these actions are expected to be completed within a year of the start of the program.

In the first quarter of 2015, VMware eliminated approximately 350 positions across all major functional groups and geographies to streamline its operations. All of these actions are expected to be completed within a year of the start of the program.

During 2014, EMC implemented restructuring programs to create further operational efficiencies which resulted in a workforce reduction of approximately 2,100 positions, of which 1,320 and 210 positions were identified in the first and second quarters of 2014, respectively. The actions impacted positions around the globe covering our Information Storage, RSA Information Security and Enterprise Content Division segments. All of these actions were completed within a year of the start of the program.

For the three and six months ended June 30, 2015, we recognized $10 million and $16 million, respectively, of lease termination costs for facilities vacated in the period in accordance with our plan as part of all of our restructuring programs and for costs associated with terminating other contractual obligations. For the three and six months ended June 30, 2014, we recognized $4 million and $8 million, respectively, of lease termination costs for facilities vacated in the period in accordance with our plan as part of all of our restructuring programs and for costs associated with terminating other contractual obligations. These costs are expected to be utilized by the end of 2016.

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

Three Months Ended June 30, 2015:
2015 EMC Programs

Category	Balance as of	2015	Utilization

	March 31, 2015	Charges		Balance as of June 30, 2015
Workforce reductions	$96	$17	$(24)	$89
Consolidation of excess facilities and other contractual obligations	6	10	(4)	12
Total	$102	$27	$(28)	$101

Other EMC Programs

Category	Balance as of March 31, 2015	Adjustments to the Provision	Utilization	Balance as of June 30, 2015
Workforce reductions	$61	$(4)	$(14)	$43
Consolidation of excess facilities and other contractual obligations	14	—	(1)	13
Total	$75	$(4)	$(15)	$56

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

VMware Programs

Category	Balance as of March 31, 2015	Adjustments to the Provision	Utilization	Balance as of June 30, 2015
Workforce reductions	$16	$(2)	$(12)	$2
Consolidation of excess facilities and other contractual obligations	—	—	—	—
Total	$16	$(2)	$(12)	$2

Six Months Ended June 30, 2015:
2015 EMC Programs

Category	Balance as of December 31, 2014	2015 Charges	Utilization	Balance as of June 30, 2015
Workforce reductions	$—	$123	$(34)	$89
Consolidation of excess facilities and other contractual obligations	—	16	(4)	12
Total	$—	$139	$(38)	$101

Other EMC Programs

Category	Balance as of December 31, 2014	Adjustments to the Provision	Utilization	Balance as of June 30, 2015
Workforce reductions	$102	$(6)	$(53)	$43
Consolidation of excess facilities and other contractual obligations	19	—	(6)	13
Total	$121	$(6)	$(59)	$56

VMware Programs

Category	Balance as of December 31, 2014	2015 Charges	Utilization	Balance as of June 30, 2015
Workforce reductions	$8	$21	$(27)	$2
Consolidation of excess facilities and other contractual obligations	—	—	—	—
Total	$8	$21	$(27)	$2

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

Three Months Ended June 30, 2014:
2014 EMC Programs

Category	Balance as of March 31, 2014	2014 Charges	Utilization	Balance as of June 30, 2014
Workforce reductions	$102	$32	$(36)	$98
Consolidation of excess facilities and other contractual obligations	1	4	(2)	3
Total	$103	$36	$(38)	$101

Other EMC Programs

Category	Balance as of March 31, 2014	Adjustments to the Provision	Utilization	Balance as of June 30, 2014
Workforce reductions	$37	$(7)	$(13)	$17
Consolidation of excess facilities and other contractual obligations	20	—	(2)	18
Total	$57	$(7)	$(15)	$35

Six Months Ended June 30, 2014:
2014 EMC Programs

Category	Balance as of December 31, 2013	2014 Charges	Utilization	Balance as of June 30, 2014
Workforce reductions	$—	$149	$(51)	$98
Consolidation of excess facilities and other contractual obligations	—	6	(3)	3
Total	$—	$155	$(54)	$101

Other EMC Programs

Category	Balance as of December 31, 2013	Adjustments to the Provision	Utilization	Balance as of June 30, 2014
Workforce reductions	$66	$(13)	$(36)	$17
Consolidation of excess facilities and other contractual obligations	24	2	(8)	18
Total	$90	$(11)	$(44)	$35

13. Commitments and Contingencies

Litigation

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

During June 2015, VMware reached an agreement with the Department of Justice (“DOJ”) and the General Services Administration (“GSA”) to pay $76 million to resolve allegations that VMware’s government sales practices between 2006 and 2013 had violated the federal False Claims Act. The settlement was paid and recorded as a reduction of VMware’s product revenues during the three months ended June 30, 2015.

14. Segment Information

We manage the Company as a federation of businesses: EMC Information Infrastructure, VMware Virtual Infrastructure and Pivotal. EMC Information Infrastructure operates in three segments: Information Storage, Enterprise Content Division and RSA Information Security, while VMware Virtual Infrastructure and Pivotal each operate as single segments.

Our management measures are designed to assess performance of these reporting segments excluding certain items. As a result, the corporate reconciling items are used to capture the items excluded from the segment operating performance measures, including stock-based compensation expense, intangible asset amortization expense, restructuring charges and acquisition and other related charges. Additionally, in certain instances, infrequently occurring items are also excluded or included from the measures used by management in assessing segment performance. Research and development expenses, selling, general and administrative expenses and restructuring and acquisition-related charges associated with the EMC Information Infrastructure business are not allocated to the segments within the EMC Information Infrastructure business, as they are managed centrally at the EMC Information Infrastructure business level. EMC Information Infrastructure and Pivotal have not been allocated non-operating income (expense), net and income tax provision as these costs are managed centrally at the EMC corporate level. Accordingly, for the three segments within the EMC Information Infrastructure business, gross profit is the segment operating performance measure, while for Pivotal, operating income is the operating performance measure. The VMware Virtual Infrastructure within EMC amounts represent the revenues and expenses of VMware as reflected within EMC’s consolidated financial statements.

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

Our segment information for the three and six months ended June 30, 2015 and 2014 is as follows (tables in millions, except percentages):

	EMC Information Infrastructure					
	Information Storage	Enterprise Content Division	RSA Information Security	EMC Information Infrastructure	Pivotal	EMC Information Infrastructure plus Pivotal
Three Months Ended June 30, 2015						
Revenues:						