

EMC CORP
Form 10-Q
November 05, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from _____ to _____

Commission File Number 1-9853

EMC CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts

(State or other jurisdiction of
incorporation or organization)

04-2680009

(I.R.S. Employer
Identification Number)

176 South Street

Hopkinton, Massachusetts

(Address of principal executive offices)

(508) 435-1000

(Registrant's telephone number, including area code)

01748

(Zip 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 No

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

Indicate by check mark 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

Accelerated filer

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

Smaller reporting company

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

The number of shares of common stock, par value \$.01 per share, of the registrant outstanding as of September 30, 2014 was 2,034,908,501.

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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 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 ContentsPART I
FINANCIAL INFORMATIONItem 1. FINANCIAL STATEMENTS
EMC CORPORATION
CONSOLIDATED BALANCE SHEETS
(in millions, except per share amounts)

	September 30, 2014	December 31, 2013
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,055	\$ 7,891
Short-term investments	2,092	2,773
Accounts and notes receivable, less allowance for doubtful accounts of \$68 and \$62	3,185	3,861
Inventories	1,390	1,334
Deferred income taxes	970	912
Other current assets	727	507
Total current assets	14,419	17,278
Long-term investments	7,233	6,924
Property, plant and equipment, net	3,629	3,478
Intangible assets, net	2,069	1,780
Goodwill	15,859	14,424
Other assets, net	1,819	1,965
Total assets	\$ 45,028	\$ 45,849
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,109	\$ 1,434
Accrued expenses	2,884	2,783
Notes converted and payable (See Note 4)	—	1,665
Income taxes payable	448	639
Deferred revenue	5,694	5,278
Total current liabilities	10,135	11,799
Income taxes payable	289	296
Deferred revenue	4,072	3,701
Deferred income taxes	363	421
Long-term debt (See Note 4)	5,494	5,494
Other liabilities	384	352
Total liabilities	20,737	22,063
Commitments and contingencies (See Note 14)		
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 2,035 and 2,020 shares	20	20
Additional paid-in capital	850	1,406
Retained earnings	21,997	21,114
Accumulated other comprehensive loss, net	(198) (239
Total EMC Corporation's shareholders' equity	22,669	22,301

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Non-controlling interests	1,622	1,485
Total shareholders' equity	24,291	23,786
Total liabilities and shareholders' equity	\$ 45,028	\$ 45,849

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

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Revenues:				
Product sales	\$3,400	\$ 3,165	\$9,728	\$ 9,535
Services	2,632	2,374	7,663	7,005
	6,032	5,539	17,391	16,540
Costs and expenses:				
Cost of product sales	1,400	1,324	4,068	4,020
Cost of services	889	773	2,579	2,271
Research and development	767	686	2,239	2,056
Selling, general and administrative	1,990	1,809	5,852	5,308
Restructuring and acquisition-related charges	39	40	187	195
Operating income	947	907	2,466	2,690
Non-operating income (expense):				
Investment income	29	26	100	93
Interest expense	(40	) (58	) (108	) (109
Other expense, net	(103	) (55	) (245	) (197
Total non-operating income (expense)	(114	) (87	) (253	) (213
Income before provision for income taxes	833	820	2,213	2,477
Income tax provision	206	181	532	474
Net income	627	639	1,681	2,003
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(40	) (53	) (113	) (136
Net income attributable to EMC Corporation	\$587	\$ 586	\$1,568	\$ 1,867
Net income per weighted average share, basic attributable to EMC Corporation common shareholders	\$0.29	\$ 0.28	\$0.77	\$ 0.89
Net income per weighted average share, diluted attributable to EMC Corporation common shareholders	\$0.28	\$ 0.27	\$0.76	\$ 0.86
Weighted average shares, basic	2,032	2,069	2,033	2,088
Weighted average shares, diluted	2,057	2,165	2,065	2,176
Cash dividends declared per common share	\$0.12	\$ 0.10	\$0.33	\$ 0.20

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

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Net income	\$627	\$ 639	\$1,681	\$ 2,003
Other comprehensive income (loss), net of taxes (benefits):				
Foreign currency translation adjustments	(61	) 12	(57	) (44
Changes in market value of investments:				
Changes in unrealized gains (losses), net of taxes (benefits) of \$16, \$0, \$65 and \$(16)	24	(1	) 107	(30
Reclassification adjustment for net losses (gains) realized in net income, net of benefits (taxes) of \$(5), \$0, \$(11) and \$(4)	(8	) 1	(19	) (7
Net change in market value of investments	16	—	88	(37
Changes in market value of derivatives:				
Changes in unrealized gains (losses), net of taxes (benefits) of \$3, \$(1), \$3 and \$2	10	(1	) 11	6
Reclassification adjustment for net losses (gains) included in net income, net of benefits (taxes) of \$0, \$0, \$0 and \$(2)	1	(1	) (2	) (9
Net change in the market value of derivatives	11	(2	) 9	(3
Change in actuarial net gain (loss) from pension and other postretirement plans:				
Recognition of actuarial net gain (loss) from pension and other postretirement plans, net of taxes (benefits)	2	—	2	—
Reclassification adjustments for net gains from pension and other postretirement plans, net of taxes (benefits)	(1	) —	(1) —
Net change in actuarial gain (loss) from pension and other postretirement plans	1	—	1	—
Other comprehensive income (loss)	(33	) 10	41	(84
Comprehensive income	594	649	1,722	1,919
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(40	) (53	) (113	) (136
Less: Other comprehensive (income) loss attributable to the non-controlling interest in VMware, Inc.	1	(1	) —	1
Comprehensive income attributable to EMC Corporation	\$555	\$ 595	\$1,609	\$ 1,784

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

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

	For the Nine Months Ended	
	September 30, 2014	September 30, 2013
Cash flows from operating activities:		
Cash received from customers	\$19,005	\$18,065
Cash paid to suppliers and employees	(13,868	) (12,740
Dividends and interest received	119	118
Interest paid	(67	) (19
Income taxes paid	(897	) (691
Net cash provided by operating activities	4,292	4,733
Cash flows from investing activities:		
Additions to property, plant and equipment	(693	) (673
Capitalized software development costs	(382	) (342
Purchases of short- and long-term available-for-sale securities	(7,989	) (8,630
Sales of short- and long-term available-for-sale securities	6,396	3,540
Maturities of short- and long-term available-for-sale securities	2,135	1,386
Business acquisitions, net of cash acquired	(1,771	) (616
Purchases of strategic and other related investments	(101	) (109
Sales of strategic and other related investments	38	10
Joint venture funding	(163	) (268
Proceeds from divestiture of business	—	38
Increase in restricted cash	(76) —
Net cash used in investing activities	(2,606	) (5,664
Cash flows from financing activities:		
Proceeds from the issuance of EMC's common stock	445	302
Proceeds from the issuance of VMware's common stock	158	185
EMC repurchase of EMC's common stock	(1,374	) (1,965
EMC purchase of VMware's common stock	—	(160
VMware repurchase of VMware's common stock	(450	) (392
Excess tax benefits from stock-based compensation	85	102
Payment of long- and short-term obligations	(1,665	) (14
Proceeds from long- and short-term obligations	—	5,460
Contributions from non-controlling interests	7	105
Dividend payment	(644	) (209
Net cash (used in) provided by financing activities	(3,438	) 3,414
Effect of exchange rate changes on cash and cash equivalents	(84	) (42
Net increase (decrease) in cash and cash equivalents	(1,836	) 2,441
Cash and cash equivalents at beginning of period	7,891	4,714
Cash and cash equivalents at end of period	\$6,055	\$7,155
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$1,681	\$2,003
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,370	1,215
Non-cash interest expense on debt	—	82

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Non-cash restructuring and other special charges	14	10	
Stock-based compensation expense	770	700	
Provision for (recovery of) doubtful accounts	11	(2)
Deferred income taxes, net	(246	) (31)
Excess tax benefits from stock-based compensation	(85	) (102)
Gain on previously held interests in strategic investments	(45) —	
Impairment of strategic investment	33	—	
Other, net	20	23	
Changes in assets and liabilities, net of acquisitions:			
Accounts and notes receivable	756	521	
Inventories	(252	) (382)
Other assets	169	122	
Accounts payable	(304	) 45	
Accrued expenses	(234	) (321)
Income taxes payable	(122	) (176)
Deferred revenue	730	1,006	
Other liabilities	26	20	
Net cash provided by operating activities	\$4,292	\$4,733	

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

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

For the nine months ended September 30, 2014:

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss		Non-controlling Interests	Shareholders' Equity	
	Shares	Par Value							
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	29	—	445	—	—	—	—	445	
Tax benefit from stock options exercised	—	—	80	—	—	—	—	80	
Restricted stock grants, cancellations and withholdings, net	9	—	(101)	—	—	—	(101)
Repurchase of common stock	(52)	—	(1,374)	—	—	(1,374)
Stock options issued in business acquisitions	—	—	33	—	—	—	—	33	
Stock-based compensation	—	—	787	—	—	—	—	787	
Cash dividends declared	—	—	—	(685)	—	—	(685)
Impact from equity transactions of non-controlling interests	—	—	(426)	—	—	24	(402)
Actuarial gain on pension plan	—	—	—	—	1	—	—	1	
Change in market value of investments	—	—	—	—	88	—	—	88	
Change in market value of derivatives	—	—	—	—	9	—	—	9	
Translation adjustment	—	—	—	—	(57)	—	(57)
Convertible debt conversions and warrant settlement	29	—	—	—	—	—	—	—	
Net income	—	—	—	1,568	—	—	113	1,681	
Balance, September 30, 2014	2,035	\$20	\$850	\$21,997	\$ (198	)	\$ 1,622	\$ 24,291

For the nine months ended September 30, 2013:

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss		Non-controlling Interests	Shareholders' Equity
	Shares	Par Value						
Balance, January 1, 2013	2,107	\$21	\$3,691	\$18,853	\$ (208	)	\$ 1,167	\$ 23,524
Stock issued through stock option and stock purchase plans	21	—	302	—	—	—	—	302
	—	—	115	—	—	—	—	115

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Tax benefit from stock options exercised							
Restricted stock grants, cancellations and withholdings, net	10	—	(115)	—	—	—	(115)
Repurchase of common stock	(80)	—	(2,000)	—	—	—	(2,000)
Stock options issued in business acquisitions	—	—	1	—	—	—	1
EMC purchase of VMware stock	—	—	(124)	—	—	(26)	(150)
Stock-based compensation	—	—	706	—	—	—	706
Cash dividends declared	—	—	—	(422)	—	—	(422)
Impact from equity transactions of non-controlling interests	—	—	(336)	—	—	152	(184)
Change in market value of investments	—	—	—	—	(36)	(1)	(37)
Change in market value of derivatives	—	—	—	—	(3)	—	(3)
Translation adjustment	—	—	—	—	(44)	—	(44)
Convertible debt conversions and warrant settlement	—	—	—	—	—	—	—
Reclassification of convertible debt from mezzanine (Note 4)	—	—	49	—	—	—	49
Net income	—	—	—	1,867	—	136	2,003
Balance, September 30, 2013	2,058	\$21	\$2,289	\$20,298	\$(291)	\$ 1,428	\$ 23,745

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, 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, RSA Information Security and Information Intelligence Group.

EMC's VMware Virtual Infrastructure business, which is represented by EMC's majority equity stake in VMware, Inc. ("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") was formed in the second quarter of 2013. Pivotal unites strategic technology, people and programs formerly within EMC and VMware, including Greenplum, Cloud Foundry, Spring, Cetas, Pivotal Labs, GemFire and other products. Pivotal is building a new platform comprising next-generation data fabrics, application fabrics and a cloud independent platform-as-a-service ("PaaS").

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, 2013 which are contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 25, 2014.

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 nine-month periods ended September 30, 2014 and 2013.

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, 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.

Reclassifications

Certain prior year amounts have been reclassified to conform with the current year's presentation. During the first quarter of 2014, the Information Storage segment acquired the Data Computing Appliance and implementation services businesses from the Pivotal segment. The acquisition of these businesses was accounted for as a business combination between entities under common control. We reflected the impact of the transaction in our segment and included the financial results of the acquired businesses in the Information Storage segment and excluded these from the Pivotal segment for the three and nine months ended September 30, 2014. We recast the segment disclosures for the prior financial reporting period to present the impact of the transaction. None of

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

the segment reclassifications impact EMC's previously reported consolidated financial statements. See Note 15 for further discussion of the segment reclassifications.

Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board (“FASB”) issued a standards update on the presentation of financial statements with the presumption that the reporting entity will continue as a going concern which clarifies management's responsibility for identifying and disclosing conditions and events that might give rise to going concern accounting. The standard is effective beginning January 1, 2016, with early adoption permitted. We do not expect it to have an impact on our consolidated financial position, results of operations or cash flows.

In June 2014, the FASB issued a standards update on accounting for share-based payments when the terms of the award provide that a performance target could be achieved after a requisite service period. The standard is effective beginning January 1, 2016, with early adoption permitted. We do not expect it to have a material impact on our consolidated financial position, results of operations or cash flows.

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 is effective beginning January 1, 2017, with no early adoption permitted. The amendments 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.

In April 2014, the FASB issued new accounting guidance on reporting discontinued operations and disclosures of disposals of components of an entity which clarifies the scope of what should be reported as discontinued operations and expands required disclosures. This new guidance is effective beginning January 1, 2015, with early adoption permitted. The impact of this guidance will be dependent on the nature and significance of any transactions within the scope of this new guidance.

In July 2013, the FASB issued new accounting guidance on the presentation of unrecognized tax benefits. This new guidance requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, as a reduction to a deferred tax asset when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists, with limited exceptions. The prospective adoption of this new accounting guidance in the first quarter of 2014 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In March 2013, the FASB issued guidance that requires a parent company to release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The adoption of this new accounting guidance in the first quarter of 2014 did not have a material impact on our consolidated financial position, results of operations or cash flows.

2. Non-controlling Interests

The non-controlling interests' share of equity in VMware is reflected as non-controlling interests in the accompanying consolidated balance sheets and was \$1,517 million and \$1,380 million as of September 30, 2014 and December 31, 2013, respectively. At September 30, 2014, EMC held approximately 97% of the combined voting power of VMware's

outstanding common stock and approximately 80% of the economic interest in VMware.

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

	For the Nine Months Ended	
	September 30, 2014	September 30, 2013
Net income attributable to EMC Corporation	\$1,568	\$1,867
Transfers (to) from the non-controlling interest in VMware, Inc.:		
Increase in EMC Corporation's additional paid-in-capital for VMware's equity issuance	\$4	90
Decrease in EMC Corporation's additional paid-in-capital for VMware's other equity activity	(510)	(426)
Net transfers (to) from non-controlling interest	(426)	(336)
Change from net income attributable to EMC Corporation and transfers from the non-controlling interest in VMware, Inc.	\$1,142	\$1,531

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 September 30, 2014 and December 31, 2013. At September 30, 2014, EMC 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.

3. Business Combinations, Intangibles and Goodwill

Acquisition of AirWatch

On February 24, 2014, VMware acquired all of the outstanding capital stock of A.W.S. Holding, LLC ("AirWatch Holding"), the sole member and equity holder of AirWatch LLC ("AirWatch"). AirWatch is a leader in enterprise mobile management and security solutions. VMware acquired AirWatch to expand its solutions within the enterprise mobile and security space. The aggregate consideration paid for AirWatch was \$1,092 million, net of cash acquired, including cash of \$1,068 million and the fair value of assumed unvested equity attributed to pre-combination services totaling \$24 million.

Merger consideration totaling \$300 million was payable to certain employees of AirWatch subject to specified future employment conditions and will be recognized as expense over the requisite service period. Compensation expense totaling \$101 million was recognized from the date of acquisition through September 30, 2014.

The following table summarizes the allocation of the consideration to the fair value of the assets acquired and net liabilities assumed, net of cash acquired (table in millions):

Other current assets	\$60
Intangible assets:	
Purchased technology (weighted-average useful life of 6 years)	118
Customer relationships and customer lists (weighted-average useful life of 8 years)	78
Trademarks and tradenames (weighted-average useful life of 8 years)	40
Other (weighted-average useful life of 3 years)	14
Total intangible assets, net, excluding goodwill	250
Goodwill	879

Other assets	17	
Total assets acquired	1,206	
Unearned revenue	(45)
Other assumed liabilities, net of acquired assets	(69)
Total net liabilities assumed	(114)
Fair value of assets acquired and net liabilities assumed	\$ 1,092	

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

These VMware intangible assets are being 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, recognized and primarily related to expected synergies from the transaction. The majority of the goodwill and identifiable intangible assets are expected to be deductible for U.S. federal income tax purposes. The results of this acquisition 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 company were not material to our consolidated results of operations for the three and nine months ended September 30, 2014 or 2013.

Other Acquisitions

During the nine months ended September 30, 2014, EMC acquired three companies. We acquired all of the outstanding capital stock of DSSD, Inc., a developer of an innovative new rack-scale flash storage architecture for I/O-intensive in-memory databases and Big Data workloads, and TwinStrata, Inc., a provider of advanced tiering cloud technology. These acquisitions complement and expand our Information Storage segment. We also acquired Simplified, Inc., a provider of a comprehensive cloud identity solution that helps service-oriented IT organizations simplify user access, regain visibility and control over application usage and meet security and compliance requirements, which complements and expands our RSA Information Security segment.

Additionally, during the nine months ended September 30, 2014, VMware acquired all of the outstanding common stock of CloudVolumes, Inc., a provider of real-time application delivery technology that enables enterprises to deliver native applications to virtualized environments on-demand.

The aggregate consideration for these four acquisitions was \$800 million, which consisted of \$735 million of cash consideration, net of cash acquired, \$9 million for the fair value of assumed unvested equity attributed to pre-combination services and \$11 million in contingent consideration attributed to pre-combination services which is included in accrued expenses on the consolidated balance sheets. In connection with these acquisitions, we had a \$45 million gain on previously held interests in strategic investments. This was recognized in other expense, net in the consolidated income statements in the second quarter of 2014. 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 \$563 million, \$325 million and \$88 million, respectively.

The intangible assets acquired were comprised of developed technology and software license intangible assets which have a weighted-average amortization period of 7 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 nine months ended September 30, 2014 or 2013.

Intangible Assets

Intangible assets, excluding goodwill, as of September 30, 2014 and December 31, 2013 consist of (tables in millions):

September 30, 2014

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	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	\$2,807	\$(1,607)	\$1,200
Patents	225	(113)	112
Software licenses	105	(92)	13
Trademarks and tradenames	212	(131)	81
Customer relationships and customer lists	1,463	(944)	519
Leasehold interest	147	(15)	132
Other	44	(32)	12
Total intangible assets, excluding goodwill	\$5,003	\$(2,934)	\$2,069

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	December 31, 2013		Net Book Value
	Gross Carrying Amount	Accumulated Amortization	
Purchased technology	\$2,356	\$(1,429)	) \$927
Patents	225	(102)	) 123
Software licenses	101	(90)	) 11
Trademarks and tradenames	171	(118)	) 53
Customer relationships and customer lists	1,386	(855)	) 531
Leasehold interest	145	(11)	) 134
Other	28	(27)	) 1
Total intangible assets, excluding goodwill	\$4,412	\$(2,632)	) \$1,780

Goodwill

Changes in the carrying amount of goodwill, net, on a consolidated basis and by segment, for the nine months ended September 30, 2014 consist of (table in millions):

	Nine Months Ended September 30, 2014					
	Information Storage	Information Intelligence Group	RSA Information Security	Pivotal	VMware Virtual Infrastructure	Total
Balance, beginning of the period	\$7,486	\$1,487	\$2,203	\$177	\$3,071	\$14,424
Goodwill resulting from acquisitions	526	—	—	—	916	1,442
Finalization of purchase price allocations and other, net	2	(1)	—	—	(8)	(7)
Goodwill transferred in acquisition of Pivotal businesses	6	—	—	(6)	—	—
Balance, end of the period	\$8,020	\$1,486	\$2,203	\$171	\$3,979	\$15,859

During the first quarter of 2014, the Information Storage segment acquired the Data Computing Appliance and implementation services businesses from the Pivotal segment. The transfer of goodwill pursuant to this acquisition is shown above for the nine months ended September 30, 2014. For both transactions, the amount of transferred goodwill was determined using the relative fair value method. See Note 15 for further discussion of the segment reclassifications.

4. Debt

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 first interest payment occurred on December 2, 2013. 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, dividend payments, business acquisitions, 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 September 30, 2014, we were in compliance with all debt covenants, which are customary in nature.

Our long-term debt as of September 30, 2014 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	%	999
			\$5,494

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The unamortized discount on the Notes consists of \$6 million, which will be fully amortized by June 1, 2023. The effective interest rate on the Notes was 2.54% for both the three and nine months ended September 30, 2014.

Convertible Debt

In November 2006, we issued our \$1.725 billion 1.75% convertible senior notes due 2011 (the “2011 Notes”) and our 2013 Notes for total gross proceeds of \$3.5 billion. The 2011 Notes matured and were settled in 2012.

The 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.

The 2013 Notes paid interest in cash at a rate of 1.75% semi-annually in arrears on December 1 and June 1 of each year. The effective interest rate on the 2013 Notes was 5.6% for both the three and nine months ended September 30, 2013.

The following table represent the key components of our interest expense on convertible debt for the three and nine months ended September 30, 2013 (table in millions):

	September 30, 2013	
	Three Months Ended	Nine Months Ended
Contractual interest expense on the coupon	\$7	\$22
Amortization of the discount component recognized as interest expense	17	49
Total interest expense on the convertible debt	\$24	\$71

In connection with the issuance of the 2011 Notes and 2013 Notes, we entered into separate convertible note hedge transactions with respect to our common stock (the “Purchased Options”). The Purchased Options 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 2011 Notes and 2013 Notes upon conversion. The Purchased Options covered, subject to customary anti-dilution adjustments, approximately 215 million shares of our common stock. We paid an aggregate amount of \$669 million of the proceeds from the sale of the 2011 Notes and 2013 Notes for the Purchased Options that was recorded as additional paid-in-capital in shareholders’ equity. In 2011, we exercised approximately half of the Purchased Options in connection with the planned settlements of the 2011 Notes. In the fourth quarter of 2013, we exercised the remaining 108 million of the Purchased Options in conjunction with the planned settlements of the 2013 Notes, and we 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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 ten year debt in 2011 when our 2011 Notes were scheduled to become due. As such, the unrealized loss on these hedges was recognized in other comprehensive loss.

During 2011 and 2012, we settled the swaps and replaced them with new interest rate swap contracts for revised forecasted debt issuance dates. Each of these new swaps was deemed as an effective hedge as the notional amounts and other terms matched the underlying hedged item and accordingly, losses on the interest rate swap contracts were deferred as they were expected to be realized over the life of the new debt issued under the related interest rate swap contracts. In the second half of 2012, we settled the interest rate swap contracts and did not replace them. Losses on the swaps at the time of settlement 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 realized over the remaining life of our ten year Notes.

During the three months ending September 30, 2014, \$6 million 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 September 30, 2014, 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 September 30, 2014 and December 31, 2013. At September 30, 2014 and December 31, 2013, 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 September 30, 2014 and December 31, 2013, auction rate securities were valued using a discounted cash flow model.

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The following tables summarize the composition of our short- and long-term investments at September 30, 2014 and December 31, 2013 (tables in millions):

	September 30, 2014			Aggregate Fair Value
	Amortized Cost	Unrealized Gains	Unrealized (Losses)	
U.S. government and agency obligations	\$2,321	\$3	\$(2)	\$2,322
U.S. corporate debt securities	2,285	3	(3)	2,285
High yield corporate debt securities	559	11	(9)	561
Asset-backed securities	31	—	—	31
Municipal obligations	984	3	—	987
Auction rate securities	56	—	(4)	52
Foreign debt securities	2,746	3	(2)	2,747
Total fixed income securities	8,982	23	(20)	8,985
Publicly traded equity securities	152	197	(9)	340
Total	\$9,134	\$220	\$(29)	\$9,325

We held approximately \$2,747 million in foreign debt securities at September 30, 2014. 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 or Cyprus.

	December 31, 2013			Aggregate Fair Value
	Amortized Cost	Unrealized Gains	Unrealized (Losses)	
U.S. government and agency obligations	\$3,726	\$4	\$(3)	\$3,727
U.S. corporate debt securities	2,260	8	(2)	2,266
High yield corporate debt securities	515	19	(3)	531
Municipal obligations	860	3	—	863
Auction rate securities	63	—	(3)	60
Foreign debt securities	2,152	6	(3)	2,155
Total fixed income securities	9,576	40	(14)	9,602
Publicly traded equity securities	72	24	(1)	95
Total	\$9,648	\$64	\$(15)	\$9,697

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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 September 30, 2014 and December 31, 2013 (tables in millions):

	September 30, 2014			Total
	Level 1	Level 2	Level 3	
Cash	\$1,590	\$—	\$—	\$1,590
Cash equivalents	3,965	500	—	4,465
U.S. government and agency obligations	1,316	1,006	—	2,322
U.S. corporate debt securities	—	2,285	—	2,285
High yield corporate debt securities	—	561	—	561
Asset-backed securities	—	31	—	31
Municipal obligations	—	987	—	987
Auction rate securities	—	—	52	52
Foreign debt securities	—	2,747	—	2,747
Publicly traded equity securities	340	—	—	340
Total cash and investments	\$7,211	\$8,117	\$52	\$15,380
Other items:				
Strategic investments held at cost	\$—	\$—	\$312	\$312
Investment in joint venture	—	—	36	36
Long-term debt carried at discounted cost	—	(5,475	) —	(5,475
Foreign exchange derivative assets	—	74	—	74
Foreign exchange derivative liabilities	—	(105	) —	(105
Commodity derivative assets	—	2	—	2
	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Cash	\$1,725	\$—	\$—	\$1,725
Cash equivalents	5,674	492	—	6,166
U.S. government and agency obligations	1,797	1,930	—	3,727
U.S. corporate debt securities	—	2,266	—	2,266
High yield corporate debt securities	—	531	—	531
Municipal obligations	—	863	—	863
Auction rate securities	—	—	60	60
Foreign debt securities	—	2,155	—	2,155
Publicly traded equity securities	95	—	—	95
Total cash and investments	\$9,291	\$8,237	\$60	\$17,588
Other items:				
Strategic investments held at cost	\$—	\$—	\$379	\$379
Investment in joint venture	—	—	35	35
Convertible debt carried at discounted cost	—	(5,419	) —	(5,419
Foreign exchange derivative assets	—	31	—	31
Foreign exchange derivative liabilities	—	(20	) —	(20
Commodity derivative assets	—	4	—	4

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.

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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 September 30, 2014, 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 September 30, 2014. 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 September 30, 2014 and December 31, 2013 due to the narrowing of credit spreads on AA-rated banks during 2013 and into 2014.

The following table provides a summary of changes in fair value of our Level 3 auction rate securities for the three and nine months ended September 30, 2014 and 2013 (table in millions):

	For the Three Months Ended		For the Nine Months Ended	
	September	September	September	September
	30, 2014	30, 2013	30, 2014	30, 2013
Balance, beginning of the period	\$59	\$68	\$60	\$70
Calls at par value	(7	) —	(7	) (1
Other-than-temporary impairment loss	—	—	—	(1
(Increase) decrease in previously recognized unrealized losses included in other comprehensive income	—	(1	) (1	) (1
Balance, end of the period	\$52	\$67	\$52	\$67

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.

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 third quarter of 2014.

The following table provides a summary of changes in fair value of our LenovoEMC joint venture for the three and nine months ended September 30, 2014 and 2013 (table in millions):

	For the Three Months Ended		For the Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2014	2013	2014	2013
Balance, beginning of the period	\$36	\$34	\$35	\$33
Realized gain included in other expense, net	—	—	1	1
Balance, end of period	\$36	\$34	\$36	\$34

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.

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Investment Losses

Unrealized losses on investments at September 30, 2014 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	\$938	\$(2)	\$—	\$—	\$938	\$(2)
U.S. corporate debt securities	986	(3)	—	—	986	(3)
High yield corporate debt securities	264	(9)	—	—	264	(9)
Auction rate securities	—	—	52	(4)	52	(4)
Foreign debt securities	1,159	(2)	—	—	1,159	(2)
Publicly traded equity securities	21	(8)	—	(1)	21	(9)
Total	\$3,368	\$(24)	\$52	\$(5)	\$3,420	\$(29)

For all of our securities for which the amortized cost basis was greater than the fair value at September 30, 2014, we have concluded that currently we neither plan to sell the security nor is it more likely than not that we would be required to sell the security before its anticipated recovery. In making the determination as to whether the unrealized loss is other-than-temporary, we considered the length of time and extent the investment has been in an unrealized loss position, the financial condition and near-term prospects of the issuers, the issuers' credit rating and the time to maturity.

In the second quarter of 2014, an unrealized gain of \$88 million was recorded in other comprehensive income related to a strategic investment which completed an initial public offering in June 2014. This investment was reclassified from our portfolio of strategic investments held at cost to publicly traded equity securities. An additional unrealized gain of \$76 million related to this strategic investment was recorded in other comprehensive income during the third quarter of 2014.

Contractual Maturities

The contractual maturities of fixed income securities held at September 30, 2014 are as follows (table in millions):

	September 30, 2014	
	Amortized Cost Basis	Aggregate Fair Value
Due within one year	\$2,039	\$2,041
Due after 1 year through 5 years	5,974	5,978
Due after 5 years through 10 years	550	550
Due after 10 years	419	416
Total	\$8,982	\$8,985

Short-term investments on the consolidated balance sheet include \$51 million in variable rate notes which have contractual maturities in 2014, and are not classified within investments due within one year above.

6. Inventories

Inventories consist of (table in millions):

	September 30, 2014	December 31, 2013
Work-in-process	\$694	\$696

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Finished goods	696	638
	\$1,390	\$1,334

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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 September 30, 2014 were as follows (table in millions):

Year	Contractual Amounts Due Under Leases
Due within one year	\$77
Due within two years	52
Due within three years	41
Thereafter	2
Total	172
Less: Amounts representing interest	5
Present value	167
Current portion (included in accounts and notes receivable)	74
Long-term portion (included in other assets, net)	\$93

Subsequent to September 30, 2014, we sold \$7 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 September 30, 2014, amounts from lease receivables past due for more than 90 days were not significant.

The following table presents the activity of our allowance for credit losses related to lease receivables for the nine months ended September 30, 2014 and 2013 (table in millions):

	For the Nine Months Ended	
	September 30, 2014	September 30, 2013
Balance, beginning of the period	\$9	\$17
Recoveries	(5	) (12
Provisions	6	3
Balance, end of the period	\$10	\$8

Gross lease receivables totaled \$172 million and \$252 million as of September 30, 2014 and December 31, 2013, respectively, before the allowance. The components of these balances were individually evaluated for impairment and included in our allowance determination as necessary.

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8. Property, Plant and Equipment

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

	September 30, 2014	December 31, 2013
Furniture and fixtures	\$246	\$229
Equipment and software	6,557	5,973
Buildings and improvements	2,291	2,089
Land	160	132
Building construction in progress	120	215
	9,374	8,638
Accumulated depreciation	(5,745)	(5,160)
	\$3,629	\$3,478

Building construction in progress at September 30, 2014 includes \$74 million for facilities not yet placed in service that we are holding for future use.

9. Joint Venture

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

In 2009, Cisco and EMC formed VCE Company LLC (“VCE”), with investments from VMware and Intel. VCE, through Vblock infrastructure platforms, delivers an integrated IT offering that combines network, computing, storage, management, security and virtualization technologies for converged infrastructures and cloud based computing models. As of September 30, 2014, we have contributed \$1,341 million in funding and \$17 million in stock-based compensation to VCE since inception and own approximately 58% of VCE’s outstanding equity.

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

Our portion of VCE’s gains and losses is recognized in other expense, net, in the consolidated income statements. Our consolidated share of VCE’s losses, based upon our portion of the overall funding, was approximately 65% and 64% for the three and nine months ended September 30, 2014, respectively, and 63% for both the three and nine months ended September 30, 2013. As of September 30, 2014, we have recorded net accumulated losses from VCE of \$1,057 million since inception, of which \$101 million and \$261 million were recorded in the three and nine months ending September 30, 2014, respectively, and \$75 million and \$215 million were recorded in the three and nine months ended September 30, 2013, respectively.

We recognized \$207 million and \$550 million in revenue from sales of product and services to VCE during the three and nine months ended September 30, 2014, respectively, and \$131 million and \$307 million for the three and nine months ended September 30, 2013, respectively. We perform certain administrative services, pursuant to an

administrative services agreement, on behalf of VCE and we pay certain operating expenses on behalf of VCE. Accordingly, we had a receivable from VCE related to the administrative services agreement of \$65 million and \$52 million as of September 30, 2014 and December 31, 2013, respectively, included in other current assets in the consolidated balance sheets.

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

10. Accrued Expenses

Accrued expenses consist of (table in millions):

	September 30, 2014	December 31, 2013
Salaries and benefits	\$1,030	\$1,078
Product warranties	233	289
Dividends payable (see Note 12)	241	205
Partner rebates	199	214
Restructuring, current (See Note 13)	117	84
Derivatives	103	23
Other	961	890
	\$2,884	\$2,783

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 nine months ended September 30, 2014 and 2013 (table in millions):

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Balance, beginning of the period	\$255	\$ 291	\$289	\$ 278
Provision	37	39	111	135
Amounts charged to the accrual	(59)	(45)	(167)	(128)
Balance, end of the period	\$233	\$ 285	\$233	\$ 285

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.

11. Income Taxes

Our effective income tax rates were 24.7% and 24.0% for the three and nine months ended September 30, 2014, respectively. Our effective income tax rates were 22.1% and 19.1% for the three and nine months ended September 30, 2013, 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 nine months ended September 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. 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 nine months ended September 30, 2013, 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, state taxes and the U.S. federal tax credit for increasing research activities. On January 2, 2013, the American Taxpayer Relief Act of 2012 was signed into law. Some of the provisions were retroactive to January 1, 2012 including an extension of the U.S. federal tax credit for increasing research activities through December 31, 2013. Because the extension was enacted after December 31, 2012, our income tax provision for the nine months

ended September 30, 2013 included the estimated federal tax credit for increasing research activities for the full year 2012 as well as the nine months ended September 30, 2013, which reduced our effective tax rate for the nine month period.

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Our effective income tax rates increased in the three and nine months ended September 30, 2014 from the three and nine months ended September 30, 2013 due primarily to the retroactive renewal of the U.S. federal tax credit for increasing research activities on January 2, 2013 as discussed above. The U.S. federal tax credit for increasing research activities reduced our effective income tax rate by approximately 3.0% and 4.4% for the three and nine months ended September 30, 2013, respectively. Our effective income tax rates for the three and nine months ended September 30, 2014 do not reflect any U.S. federal tax credit for increasing research activities because the credit expired on December 31, 2013. There were also differences in the mix of income attributable to foreign versus domestic jurisdictions, change in tax contingency reserves and discrete items, the net impact of which is immaterial. We are routinely under audit by the Internal Revenue Service (the "IRS"). We have concluded all U.S. federal income tax matters for years through 2008. The IRS commenced a federal income tax audit for the tax years 2009 and 2010 in the third quarter of 2012. The current federal income tax audit is ongoing and it is not expected to be completed until 2015. 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 2004. Based on the timing and outcome of examinations of EMC, the result of the expiration of statutes of limitations for specific jurisdictions or the timing and result of ruling requests from taxing authorities, it is reasonably possible that the related unrecognized tax benefits could change from those recorded in our statement of financial position. We anticipate that several of these audits may be finalized within the next 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 results of operations or financial position.

12. 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 Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Numerator:				
Net income attributable to EMC Corporation	\$587	\$ 586	\$1,568	\$ 1,867
Incremental dilution from VMware	(1	) (2	) (4	) (5
Net income – dilution attributable to EMC Corporation	\$586	\$ 584	\$1,564	\$ 1,862
Denominator:				
Weighted average shares, basic	2,032	2,069	2,033	2,088
Weighted common stock equivalents	25	29	26	29
Assumed conversion of the 2013 Notes and associated warrants	—	67	6	59
Weighted average shares, diluted	2,057	2,165	2,065	2,176

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 2011 Notes and 2013 Notes, we also entered into separate transactions in which we sold warrants to acquire, subject to customary anti-dilution adjustments, approximately 215 million shares of our common stock at an exercise price of approximately \$19.55 per share of our common stock. Approximately half of the associated warrants were exercised during the year ended December 31, 2012. The remaining 109 million warrants were exercised between February 18, 2014 and March 17, 2014. These warrants were settled with 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 three and nine months ended September 30, 2013 as the average stock price exceeded the exercise price, and during the nine months ended September 30, 2014 for the period the warrants were outstanding.

There were minimal antidilutive restricted stock awards, restricted stock units and options to acquire shares of our common stock excluded from the calculation of diluted earnings per share for the three months ended September 30, 2014. Restricted stock awards, restricted stock units and options to acquire shares of our common stock in the amount of 3 million for the nine months ended September 30, 2014, and 1 million and 3 million for the three and nine months ended September 30, 2013, respectively, were excluded from the calculation of diluted earnings per share because they were antidilutive. The incremental dilution from

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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. For the nine months ended September 30, 2014, we spent \$1.4 billion to repurchase 52 million shares of our common stock. Of the 250 million shares authorized for repurchase, we have repurchased 146 million shares at a total cost of \$3.7 billion, leaving a remaining balance of 104 million shares authorized for future repurchases. We plan to spend up to \$6.0 billion in the repurchase of shares during the two years ending December 31, 2014. This includes \$3.0 billion spent during the year ended December 31, 2013 and \$3.0 billion to be spent during the year ending December 31, 2014.

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. On April 17, 2014, our Board of Directors approved an increase in the quarterly cash dividend paid to EMC shareholders to \$0.115 per share of common stock.

Our Board of Directors declared the following dividends during the periods presented:

Declaration Date	Dividend Per Share	Record Date	Total Amount (in millions)	Payment Date
Nine Months ended September 30, 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
Nine Months ended September 30, 2013:				
May 30, 2013	\$0.10	July 1, 2013	\$212	July 23, 2013
August 1, 2013	\$0.10	October 1, 2013	\$210	October 23, 2013

Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss), which is presented net of tax, consist of the following (table 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 2013 ^(a)	\$ (53)	\$ 31	\$ (106)	\$ (110)	\$ (1)	\$ (239)
Other comprehensive income (loss) before reclassifications	(57)	107	11	2	—	63
Net losses (gains) reclassified from accumulated other	—	(19)	(2)	(1)	—	(22)

comprehensive income						
Net current period other comprehensive income (loss)	(57	)	88	9	1	— 41
Balance as of September 30, 2014 ^(b)	\$ (110	)	\$ 119	\$(97	)	\$(109) \$ (1) \$ (198)

(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 \$72 million for unrealized net gains on investments, \$(63) million for unrealized net losses on derivatives and \$(61) million for actuarial net loss on pension plans.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Impacted Line Item on Consolidated Income Statements
For the Three Months Ended September 30, 2014:		
Net gain on investments:	\$13	Investment income
	(5	) Provision for income tax
Net of tax	\$8	
Net gain on derivatives:		
Foreign exchange contracts	\$12	Product sales revenue
Foreign exchange contracts	(7	) Cost of product sales
Interest rate swap	(6	) Other interest expense
Total net gain on derivatives before tax	(1)
	\$—	Provision for income tax
Net of tax	\$(1)
Net gains from pension and other postretirement plans	\$1	Selling, general and administrative expense
	—	Provision for income tax
Net of tax	\$1	
Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Impacted Line Item on Consolidated Income Statements
For the Nine Months Ended September 30, 2014:		
Net gain on investments:	\$30	Investment income
	(11	) Provision for income tax
Net of tax	\$19	
Net gain on derivatives:		
Foreign exchange contracts	\$15	Product sales revenue
Foreign exchange contracts	(7	) Cost of product sales
Interest rate swap	(6	) Other interest expense
Total net gain on derivatives before tax	2	
	\$—	Provision for income tax
Net of tax	\$2	
Net gains from pension and other postretirement plans	\$1	Selling, general and administrative expense
	—	Provision for income tax
Net of tax	\$1	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

13. Restructuring and Acquisition-Related Charges

For the three and nine months ended September 30, 2014, we incurred restructuring and acquisition-related charges of \$39 million and \$187 million, respectively. For the three and nine months ended September 30, 2013, we incurred restructuring and acquisition-related charges of \$40 million and \$195 million, respectively. For the three and nine months ended September 30, 2014, EMC incurred \$31 million and \$175 million, respectively, of restructuring charges, primarily related to our current year restructuring programs, and during the three and nine months ended September 30, 2014, EMC incurred \$2 million and \$3 million, respectively, of charges in connection with acquisitions for financial, advisory, legal and accounting services. For the three and nine months ended September 30, 2014, VMware recognized \$6 million and \$4 million, respectively, of restructuring charges, primarily related to its current year restructuring program. For the nine months ended September 30, 2014, VMware incurred \$5 million of charges in connection with acquisitions for financial, advisory, legal and accounting services. For the three and nine months ended September 30, 2013, EMC incurred \$30 million and \$116 million, respectively, of restructuring charges, primarily related to our 2013 restructuring programs. For the three and nine months ended September 30, 2013, VMware incurred \$1 million and \$54 million, respectively, of restructuring charges, primarily related to its 2013 restructuring program. For the three and nine months ended September 30, 2013, EMC incurred \$4 million and \$8 million, respectively, and VMware incurred \$1 million and \$3 million, respectively, of costs for financial, advisory, legal and accounting services in connection with acquisitions. Additionally, during the three and nine months ended September 30, 2013, VMware incurred \$4 million and \$14 million, respectively, of impairment charges related to its business realignment.

EMC implemented restructuring programs to create further operational efficiencies which will result in workforce reductions of approximately 1,326 positions in the first quarter, 210 positions in the second quarter and 241 positions in the third quarter of 2014. The actions will impact positions around the globe covering our Information Storage, RSA Information Security, Information Intelligence Group and Pivotal segments. All of these actions are expected to be completed within a year of the start of the program.

During the three months ended September 30, 2014, VMware initiated a business realignment plan to streamline its operations which will result in the elimination of approximately 90 positions across all major functional groups and geographies. All of these actions are expected to be completed within a year of the start of the program.

During 2013, EMC implemented a restructuring program to create further operational efficiencies which resulted in a workforce reduction of 1,917 positions, of which 1,525 positions were identified in the first and third quarters of 2013. The actions impacted positions around the globe covering our Information Storage, RSA Information Security and Information Intelligence Group segments. All of these actions were completed within a year of the start of the program.

During 2013, VMware approved and initiated a business realignment plan to streamline its operations. The plan included the elimination of approximately 710 positions across all major functional groups and geographies. All of these actions were completed within a year of the start of the program.

For the three and nine months ended September 30, 2014, we recognized \$2 million and \$10 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 nine months ended September 30, 2013, we recognized \$2 million and \$14 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. These costs are expected to be utilized by the end of 2016.

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

Three Months Ended September 30, 2014:

2014 EMC Programs

Category	Balance as of June 30, 2014	2014 Charges	Utilization	Balance as of September 30, 2014
Workforce reductions	\$98	\$30	\$(33)	\$95
Consolidation of excess facilities and other contractual obligations	3	2	(2)	3
Total	\$101	\$32	\$(35)	\$98

Other EMC Programs

Category	Balance as of June 30, 2014	Adjustments to the Provision	Utilization	Balance as of September 30, 2014
Workforce reductions	\$17	\$(1)	\$(6)	\$10
Consolidation of excess facilities and other contractual obligations	18	—	(1)	17
Total	\$35	\$(1)	\$(7)	\$27

Nine Months Ended September 30, 2014:

2014 EMC Programs

Category	Balance as of December 31, 2013	2014 Charges	Utilization	Balance as of September 30, 2014
Workforce reductions	\$—	\$179	\$(84)	\$95
Consolidation of excess facilities and other contractual obligations	—	7	(4)	3
Total	\$—	\$186	\$(88)	\$98

Other EMC Programs

Category	Balance as of December 31, 2013	Adjustments to the Provision	Utilization	Balance as of September 30, 2014
Workforce reductions	\$66	\$(14)	\$(42)	\$10
Consolidation of excess facilities and other contractual obligations	24	3	(10)	17
Total	\$90	\$(11)	\$(52)	\$27

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Three Months Ended September 30, 2013:

2013 EMC Programs

Category	Balance as of June 30, 2013	2013 Charges	Utilization	Balance as of September 30, 2013
Workforce reductions	\$45	\$28	\$(21)	\$52
Consolidation of excess facilities and other contractual obligations	2	1	(1)	2
Total	\$47	\$29	\$(22)	\$54

2013 VMware Programs

Category	Balance as of June 30, 2013	2013 Charges	Utilization	Balance as of September 30, 2013
Workforce reductions	\$2	\$1	\$(2)	\$1
Consolidation of excess facilities and other contractual obligations	—	—	—	—
Total	\$2	\$1	\$(2)	\$1

Other EMC Programs

Category	Balance as of June 30, 2013	2013 Charges	Utilization	Balance as of September 30, 2013
Workforce reductions	\$29	\$—	\$(6)	\$23
Consolidation of excess facilities and other contractual obligations	27	1	(3)	25
Total	\$56	\$1	\$(9)	\$48

Nine Months Ended September 30, 2013:

2013 EMC Programs

Category	Balance as of December 31, 2012	2013 Charges	Utilization	Balance as of September 30, 2013
Workforce reductions	\$—	\$110	\$(58)	\$52
Consolidation of excess facilities and other contractual obligations	—	4	(2)	2
Total	\$—	\$114	\$(60)	\$54

2013 VMware Programs

Category	Balance as of December 31, 2012	2013 Charges	Utilization	Balance as of September 30, 2013
Workforce reductions	\$—	\$54	\$(53)	\$1
Consolidation of excess facilities and other contractual obligations	—	—	—	—
Total	\$—	\$54	\$(53)	\$1

Other EMC Programs

Category	Balance as of December 31, 2012	2013 Charges	Utilization	Balance as of September 30, 2013
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Workforce reductions	\$63	\$ (8)	\$(32)	\$23
Consolidation of excess facilities and other contractual obligations	28	10		(13)	25
Total	\$91	\$2		\$(45)	\$48

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

14. 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.

15. 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, Information Intelligence Group and RSA Information Security while VMware Virtual Infrastructure and Pivotal each operate as single segments.

During the first quarter of 2014, the Information Storage segment acquired the Data Computing Appliance and implementation services businesses from the Pivotal segment. The acquisition of these businesses was accounted for as a business combination between entities under common control. We reflected the impact of the transaction on our segment for the first quarter of 2014 and included the financial results of the acquired businesses in the Information Storage segment and excluded these from the Pivotal segment. We recast the segment disclosures for the prior financial reporting period to present the impact of the transaction. None of the segment reclassifications impact EMC's previously reported consolidated financial statements.

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 and acquisition-related intangible asset amortization expense. Additionally, in certain instances, infrequently occurring gains or losses are also excluded from the measures used by management in assessing segment performance. Research and development expenses, selling, general and administrative expenses and restructuring and acquisition and other 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Our segment information for the three and nine months ended September 30, 2014 and 2013 is as follows (tables in millions, except percentages):

	EMC Information Infrastructure					EMC	
	Information Storage	Information Intelligence Group	RSA Information Security	EMC Information Infrastructure	Pivotal	Information Infrastructure plus Pivotal	
Three Months Ended:							
September 30, 2014							
Revenues:							
Product revenues	\$2,595	\$36	\$114	\$2,745	\$17	\$2,762	
Services revenues	1,456	118	147	1,721	41	1,762	
Total consolidated revenues	4,051	154	261	4,466	58	4,524	
Gross profit	\$2,238	\$100	\$173	\$2,511	\$27	\$2,538	
Gross profit percentage	55.2	% 65.2	% 66.3	% 56.2	% 46.9	% 56.1	%
Research and development				372	33	405	
Selling, general and administrative				1,146	46	1,192	
Restructuring and acquisition-related charges				—	—	—	
Total costs and expenses				1,518	79	1,597	
Operating income (expense)				\$993	\$(52)	\$941	
				EMC Information Infrastructure plus Pivotal	VMware Virtual Infrastructure within EMC	Corp Reconciling Items	Consolidated
Three Months Ended							
September 30, 2014							
Revenues:							
Product revenues			\$2,762	\$638	\$—	\$3,400	
Services revenues			1,762	870	—	2,632	
Total consolidated revenues			4,524	1,508	—	6,032	
Gross profit			\$2,538	\$1,304	\$(99)	\$3,743	
Gross profit percentage			56.1	% 86.5	% —	% 62.0	%
Research and development			405	263	99	767	
Selling, general and administrative			1,192	586	212	1,990	
Restructuring and acquisition-related charges			—	—	39	39	
Total costs and expenses			1,597	849	350	2,796	
Operating income (expense)			941	455	(449)	947	
Non-operating income (expense), net			(120)) 6	—	(114))
Income tax provision (benefit)			207	99	(100)	206	

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Net income	614	362	(349)	627
Net income attributable to the non-controlling interest in VMware, Inc.	—	(73)	33	(40)
Net income attributable to EMC Corporation	\$614	\$289	\$(316)	\$587

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	EMC Information Infrastructure					EMC	
	Information Storage	Information Intelligence Group	RSA Information Security	EMC Information Infrastructure	Pivotal	Information Infrastructure plus Pivotal	
Three Months Ended: September 30, 2013							
Revenues:							
Product revenues	\$2,430	\$32	\$120	\$2,582	\$20	\$2,602	
Services revenues	1,376	117	132	1,625	27	1,652	
Total consolidated revenues	3,806	149	252	4,207	47	4,254	
Gross profit	\$2,106	\$94	\$170	\$2,370	\$29	\$2,399	
Gross profit percentage	55.3	% 63.3	% 67.6	% 56.3	% 61.0	% 56.4	%
Research and development				356	30	386	
Selling, general and administrative				1,115	42	1,157	
Restructuring and acquisition-related charges				—	—	—	
Total costs and expenses				1,471	72	1,543	
Operating income (expense)				\$899	\$(43)	\$856	
				EMC Information Infrastructure plus Pivotal	VMware Virtual Infrastructure within EMC	Corp Reconciling Items	Consolidated
Three Months Ended: September 30, 2013							
Revenues:							
Product revenues			\$2,602	\$563	\$—	\$3,165	
Services revenues			1,652	722	—	2,374	
Total consolidated revenues			4,254	1,285	—	5,539	
Gross profit			\$2,399	\$1,141	\$(98)	\$3,442	
Gross profit percentage			56.4	% 88.8	% —	% 62.1	%
Research and development			386	208	92	686	
Selling, general and administrative			1,157	493	159	1,809	
Restructuring and acquisition-related charges			—	—	40	40	
Total costs and expenses			1,543	701	291	2,535	
Operating income (expense)			856	440	(389)	907	
Non-operating income (expense), net			(106)) 7	12	(87))
Income tax provision (benefit)			193	70	(82)	181	
Net income			557	377	(295)	639	

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Net income attributable to the non-controlling interest in VMware, Inc.	—	(74)	21	(53)
Net income attributable to EMC Corporation	\$557	\$303		\$(274)	\$586

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	EMC Information Infrastructure						
	Information Storage	Information Intelligence Group	RSA Information Security	EMC Information Infrastructure	Pivotal		EMC Information Infrastructure plus Pivotal
Nine Months Ended: September 30, 2014							
Revenues:							
Product revenues	\$7,447	\$108	\$323	\$7,878	\$43		\$7,921
Services revenues	4,260	358	425	5,043	118		5,161
Total consolidated revenues	11,707	466	748	12,921	161		13,082
Gross profit	\$6,405	\$300	\$497	\$7,202	\$71		\$7,273
Gross profit percentage	54.7	% 64.4	% 66.4	% 55.7	% 44.3		% 55.6
Research and development				1,106	98		1,204
Selling, general and administrative				3,388	133		3,521
Restructuring and acquisition-related charges				—	—		—
Total costs and expenses				4,494	231		4,725
Operating income (expense)				\$2,708	\$(160)	)	\$2,548
				EMC Information Infrastructure plus Pivotal	VMware Virtual Infrastructure within EMC	Corp Reconciling Items	Consolidated
Nine Months Ended: September 30, 2014							
Revenues:							
Product revenues			\$7,921	\$1,807	\$—		\$9,728
Services revenues			5,161	2,502	—		7,663
Total consolidated revenues			13,082	4,309	—		17,391
Gross profit			\$7,273	\$3,761	\$(290)	)	\$10,744
Gross profit percentage			55.6	% 87.3	% —		% 61.8
Research and development			1,204	737	298		2,239
Selling, general and administrative			3,521	1,725	606		5,852
Restructuring and acquisition-related charges			—	—	187		187
Total costs and expenses			4,725	2,462	1,091		8,278
Operating income (expense)			2,548	1,299	(1,381)	)	2,466
Non-operating income (expense), net			(285)	) 21	11		(253)
Income tax provision (benefit)			584	274	(326))	532
Net income			1,679	1,046	(1,044))	1,681

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Net income attributable to the non-controlling interest in VMware, Inc.	—	(211)	98	(113)
Net income attributable to EMC Corporation	\$1,679	\$835		\$(946)	\$1,568

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	EMC Information Infrastructure					EMC	
	Information Storage	Information Intelligence Group	RSA Information Security	EMC Information Infrastructure	Pivotal	Information Infrastructure plus Pivotal	
Nine Months Ended: September 30, 2013							
Revenues:							
Product revenues	\$7,478	\$115	\$317	\$7,910	\$48	\$7,958	
Services revenues	4,079	343	395	4,817	76	4,893	
Total consolidated revenues	11,557	458	712	12,727	124	12,851	
Gross profit	\$6,429	\$290	\$471	\$7,190	\$65	\$7,255	
Gross profit percentage	55.6	% 63.3	% 66.1	% 56.5	% 52.9	% 56.5	%
Research and development				1,099	82	1,181	
Selling, general and administrative				3,309	115	3,424	
Restructuring and acquisition-related charges				—	—	—	
Total costs and expenses				4,408	197	4,605	
Operating income (expense)				\$2,782	\$(132)	\$2,650	
				EMC Information Infrastructure plus Pivotal	VMware Virtual Infrastructure within EMC	Corp Reconciling Items	Consolidated
Nine Months Ended: September 30, 2013							
Revenues:							
Product revenues			\$7,958	\$1,577	\$—	\$9,535	
Services revenues			4,893	2,112	—	7,005	
Total consolidated revenues			12,851	3,689	—	16,540	
Gross profit			\$7,255	\$3,292	\$(298)	\$10,249	
Gross profit percentage			56.5	% 89.2	% —	% 62.0	%
Research and development			1,181	606	269	2,056	
Selling, general and administrative			3,424	1,432	452	5,308	
Restructuring and acquisition-related charges			—	—	195	195	
Total costs and expenses			4,605	2,038	916	7,559	
Operating income (expense)			2,650	1,254	(1,214)	2,690	
Non-operating income (expense), net			(258)	) 14	31	(213))
Income tax provision (benefit)			594	247	(367)	474	
Net income			1,798	1,021	(816)	2,003	

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Net income attributable to the non-controlling interest in VMware, Inc.	—	(202)	66	(136)
Net income attributable to EMC Corporation	\$1,798	\$819		\$(750)	\$1,867

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EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
United States	\$3,212	\$2,956	\$9,102	\$8,752
Europe, Middle East and Africa	1,672	1,455	4,933	4,418
Asia Pacific and Japan	821	789	2,346	2,361
Latin America, Mexico and Canada	327	339	1,010	1,009
Total	\$6,032	\$5,539	\$17,391	\$16,540

No country other than the United States accounted for 10% or more of revenues during the three and nine months ended September 30, 2014 or 2013.

Long-lived assets, excluding financial instruments, deferred tax assets, goodwill and intangible assets, in the United States were \$4,337 million at September 30, 2014 and \$4,433 million at December 31, 2013. Internationally, long-lived assets, excluding financial instruments, deferred tax assets, goodwill and intangible assets, were \$973 million at September 30, 2014 and \$877 million at December 31, 2013. No country other than the United States accounted for 10% or more of total long-lived assets, excluding financial instruments and deferred tax assets, at September 30, 2014 or December 31, 2013.

16. Subsequent Events

In October 2014, EMC entered into a definitive agreement to reorganize and recapitalize VCE, which will result in EMC acquiring the controlling interest in VCE and Cisco retaining the remaining 10% ownership stake. The transaction is expected to close in the fourth quarter of 2014, subject to customary regulatory approvals. Upon closing, EMC will begin reporting the VCE financial results as part of its consolidated financial statements.

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

This Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations should be read in conjunction with our consolidated financial statements and notes thereto which appear elsewhere in this Quarterly Report on Form 10-Q. 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. 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.

Certain tables may not add or recalculate due to rounding.

INTRODUCTION

We manage our company as a federation of businesses, each of which plays a vital role in the delivery of IT-as-a-service ("ITaaS"): EMC Information Infrastructure, Pivotal and VMware Virtual Infrastructure. This approach allows each of the businesses to individually build best-of-breed products, go-to-market capabilities and ecosystems that they need to succeed in their respective markets while sharing the same ultimate goal of helping customers manage information which is becoming central to their operations. In 2014, we have and will continue to invest in the best technology and build the most complete portfolio to transition customers from the second platform of IT, which is primarily based on client-server computing, to the emerging and rapidly growing third platform of IT, which includes cloud computing, Big Data, mobile, social networking and security. We are a leader in the second platform of IT, which continues to support the vast majority of enterprise workloads and applications contained in these environments, and we believe we will continue to gain share in 2014. At the same time, we believe we have more offerings in the third platform of IT than anyone else and are better equipped to help customers bridge the gap as they transition from the second to third platform of IT. By segmenting our strategy and executional focus across these three businesses, we can offer customers horizontal solutions and more choices than they get from our competitors to maximize control, efficiency and choice. We believe this strategy provides us with the opportunity to take advantage of the solid growth opportunity of EMC Information Infrastructure and the faster growth opportunities of VMware Virtual Infrastructure and Pivotal.

EMC Information Infrastructure

Our EMC Information Infrastructure business consists of three segments: Information Storage, Information Intelligence and RSA Information Security. The objective for our EMC Information Infrastructure business is to simultaneously increase our market share through our strong and ever expanding portfolio of offerings while investing in the business. During 2014, we have and will continue to invest in expanding our total addressable market through increased internal research and development ("R&D"), with a focus on flash, Big Data storage, software-defined storage and converged infrastructure to facilitate the enablement of cloud infrastructures, both public and private. Our investment in new technologies and solutions is reflected in our roadmap for 2014, with numerous innovations, product refreshes and brand-new products as well as continued focus on business acquisitions. We have developed a product portfolio with customers' current and future needs in mind which will continue to evolve as the largest transformation in IT history is creating enormous opportunities in cloud computing, Big Data and Trusted IT.

Our go-to market model, where we continue to leverage our direct sales force and services organization, as well as our channel and services partners and service providers, positions us well to help enable customers to transition to cloud computing and benefit from Big Data in the most advantageous manner for their businesses. As IT headcount grows at a fraction of the pace of data and the demands from the data center escalate, customers continue to look for simple and scalable ways to build out their ITaaS function. We offer three alternatives to help our customers transition to cloud architectures, in private, hybrid and public clouds, and leverage Big Data to meet these needs: our best-of-breed infrastructure products, proven infrastructure through our VSPEX reference architecture and converged infrastructure with Vblock from VCE, which continues to gather momentum in one of the fastest growing areas in IT. Our service provider program continues to be an important part of our strategy to lead our customers to the public cloud.

Pivotal

In the second quarter of 2013, we, along with VMware and an investment from General Electric Company (“GE”), formed Pivotal, which is focused on building a platform comprising the next generation of data fabrics, application fabrics and a cloud independent platform-as-a-service (“PaaS”) to support cloud computing and Big and Fast Data Applications. The first version of this integrated technology platform, Pivotal One, will continue to be a cornerstone offering in 2014 together with high-value strategic services. The foundation of Pivotal One, Cloud Foundry, continues to gain momentum as an open platform for developing and operating new cloud applications that can be run on multiple leading private and public clouds in addition to our own and not lock a customer into any one cloud in particular. On top of this platform, Pivotal will offer its own suite of big and fast data capabilities, featuring game changing innovations that use Hadoop Distributed File System (“HDFS”) and scalar processing

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

technologies. Additionally, its development services business, Pivotal Labs, will help existing customers and digital era startups build industrial-strength applications with more agility, more speed, and better quality. With its renewed focus on driving a business model to support exclusively software and strategic services, we believe we are positioning the business for rapid growth in the future.

VMware Virtual Infrastructure

VMware is the leader in virtualization infrastructure solutions utilized by organizations to help transform the way they build, deliver and consume IT resources. VMware develops and markets its product and service offerings within three main product groups, and it also seeks to leverage synergies across these three product areas: SDDC or Software-Defined Data Center, End-User Computing and Hybrid Cloud Computing.

VMware pioneered the development and application of virtualization technologies with x86 server-based computing, separating application software from the underlying hardware. The benefits to VMware's customers include lower IT costs and a more automated and resilient systems infrastructure capable of responding dynamically to variable business demands. VMware expects to grow its business by building long-term relationships with its customers which includes selling its solutions through enterprise license agreements ("ELAs").

VMware has articulated a vision for the software-defined data center ("SDDC"), where increasingly infrastructure is virtualized and delivered as a service, enabling control of the data center to be entirely automated by software. The SDDC is designed to transform the data center into an on-demand service that addresses application requirements by abstracting, pooling and automating the services that are required from the underlying hardware. SDDC promises to dramatically simplify data center operations and lower costs. The VMware vCloud Suite, which is its first integrated solution toward realizing the SDDC vision and is based upon its VMware vSphere virtualization platform, was initially introduced in late 2012.

On a consolidated basis, our vision, strategy and market leading assets within our portfolio, as well as our go-to market capabilities position us to continue to anticipate and capitalize on the mega trends of cloud, mobile, Big Data and security as the IT industry transitions from the second to the third platform. As a result, we believe on a consolidated basis we will continue to grow faster than the markets we serve in 2014, as we simultaneously invest in the business and grow earnings per share.

RESULTS OF OPERATIONS**Revenues**

The following tables present total revenue by our segments (in millions):

	For the Three Months Ended				
	September 30, 2014	September 30, 2013	\$ Change	% Change	
Information Storage	\$4,051	\$3,806	\$245	6	%
Information Intelligence Group	154	149	5	3	%
RSA Information Security	261	252	9	4	%
Pivotal	58	47	11	24	%
VMware Virtual Infrastructure within EMC	1,508	1,285	223	17	%
Total consolidated revenues	\$6,032	\$5,539	\$493	9	%

	For the Nine Months Ended				
	September 30, 2014	September 30, 2013	\$ Change	% Change	
Information Storage	\$11,707	\$11,557	\$150	1	%
Information Intelligence Group	466	458	8	2	%
RSA Information Security	748	712	36	5	%
Pivotal	161	124	37	31	%
VMware Virtual Infrastructure within EMC	4,309	3,689	620	17	%

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Total consolidated revenues	\$17,391	\$16,540	\$851	5	%
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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

Consolidated product revenues increased 7% and 2% to \$3,400 million and \$9,728 million for the three and nine months ended September 30, 2014, respectively. The percentage increase for the three and nine months ended September 30, 2014 was primarily driven by the Information Storage and VMware Virtual Infrastructure segments.

The Information Storage segment's product revenues increased 7% to \$2,595 million and remained flat at \$7,447 million for the three and nine months ended September 30, 2014, respectively. The increase during the three months ended September 30, 2014 is largely due to strong growth in Europe and a return to more normal spending by the U.S. federal government which had unexpectedly re-prioritized year-end budgets ahead of the U.S. federal government shutdown at the end of September of 2013 which negatively impacted revenue during the three months ended September 30, 2013.

Within the Information Storage segment, revenue from the high-end storage business decreased 7% and 15% for the three and nine months ended September 30, 2014, respectively, primarily driven by an overall slow down in the high-end market as well as a customer pause in purchasing in anticipation of the new VMAX high-end storage system which became generally available at the end of the third quarter. Revenue from the Emerging Storage business increased 47% and 59% for the three and nine months ended September 30, 2014, respectively, primarily due to increased demand for our portfolio of best-of-breed products that are thriving with the shift to the third platform, including flash from XtremIO, software-defined storage with ViPR and ScaleIO. Isilon revenue growth accelerated in the third quarter, benefiting from newer growth vectors where Hadoop capabilities allow efficient analysis of Big Data. Additionally, revenue from the Unified and Backup Recovery business increased