EMC CORP
Form 10-Q
May 05, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-9853
EMC CORPORATION
(Exact name of registrant as specified in its charter)

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

(508) 435-1000
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
The number of shares of common stock, par value $.01 per share, of the registrant outstanding as of March 31, 2016 was 1,953,196,703.

Table of Contents

EMC CORPORATION

FACTORS THAT MAY AFFECT FUTURE RESULTS

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

PART I
FINANCIAL INFORMATION

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

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,224	$ 6,549
Short-term investments	2,577	2,726
Accounts and notes receivable, less allowance for doubtful accounts of $83 and $90	2,941	3,977
Inventories	1,233	1,245
Other current assets	625	566
Total current assets	14,600	15,063
Long-term investments	5,169	5,508
Property, plant and equipment, net	3,806	3,850
Intangible assets, net	2,059	2,149
Goodwill	17,099	17,090
Deferred income taxes	1,173	1,164
Other assets, net	1,797	1,788
Total assets	$ 45,703	$ 46,612
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 1,038	$ 1,644
Accrued expenses	2,722	3,123
Income taxes payable	124	609
Short-term debt (See Note 3)	925	1,299
Deferred revenue	6,477	6,210
Total current liabilities	11,286	12,885
Income taxes payable	466	461
Deferred revenue	4,741	4,592
Long-term debt (See Note 3)	5,477	5,475
Other liabilities	483	480
Total liabilities	22,453	23,893
Commitments and contingencies (See Note 12)		
Shareholders’ equity:		
Preferred stock, par value $0.01; authorized 25 shares; none outstanding	—	—
Common stock, par value $0.01; authorized 6,000 shares; issued and outstanding 1,953 and 1,943 shares	20	19
Additional paid-in capital	—	—
Retained earnings	22,111	21,700
Accumulated other comprehensive loss, net	(558)	(579)
Total EMC Corporation’s shareholders’ equity	21,573	21,140
Non-controlling interests	1,677	1,579

Total shareholders' equity	23,250	22,719
Total liabilities and shareholders' equity	$45,703	$ 46,612

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

Table of Contents

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

	For the Three Months Ended March 31, 2016	March 31, 2015
Revenues:		
Product sales	$2,682	$ 2,905
Services	2,793	2,708
	5,475	5,613
Costs and expenses:		
Cost of product sales	1,251	1,329
Cost of services	964	945
Research and development	814	788
Selling, general and administrative	1,987	2,037
Restructuring and acquisition-related charges	49	135
Operating income	410	379
Non-operating income (expense):		
Investment income	13	24
Interest expense	(41)	(40)
Other income, net	4	10
Total non-operating income (expense)	(24)	(6)
Income before provision for income taxes	386	373
Income tax provision	89	82
Net income	297	291
Less: Net income attributable to the non-controlling interests	(29)	(39)
Net income attributable to EMC Corporation	$268	$ 252
Net income per weighted average share, basic attributable to EMC Corporation common shareholders	$0.14	$ 0.13
Net income per weighted average share, diluted attributable to EMC Corporation common shareholders	$0.14	$ 0.13
Weighted average shares, basic	1,949	1,974
Weighted average shares, diluted	1,965	1,996
Cash dividends declared per common share	$0.12	$ 0.12

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

Table of Contents

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

	For the Three Months Ended	
	March 31, 2016	March 31, 2015
Net income	$297	$ 291
Other comprehensive income (loss), net of taxes (benefits):		
Foreign currency translation adjustments	3	(104)
Changes in market value of investments:		
Changes in unrealized gains, net of taxes of $12 and $13	20	19
Reclassification adjustment for net losses (gains) realized in net income, net of benefits (taxes) of $0 and $(6)	2	(8)
Net change in market value of investments	22	11
Changes in market value of derivatives:		
Changes in unrealized gains (losses), net of taxes (benefits) of $(1) and $3	(4)	14
Reclassification adjustment for net losses (gains) included in net income, net of benefits (taxes) of $2 and $0	4	(11)
Net change in the market value of derivatives	—	3
Change in actuarial net gain (loss) from pension and other postretirement plans:		
Other comprehensive income (loss)	25	(90)
Comprehensive income	322	201
Less: Net income attributable to the non-controlling interests	(29)	(39)
Less: Other comprehensive income attributable to the non-controlling interests	(4)	(1)
Comprehensive income attributable to EMC Corporation	$289	$ 161

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

Table of Contents

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

	For the Three Months Ended	
	March 31, 2016	March 31, 2015
Cash flows from operating activities:		
Cash received from customers	$6,878	$ 7,495
Cash paid to suppliers and employees	(5,373)	(5,584)
Dividends and interest received	21	24
Interest paid	(3)	—
Income taxes paid	(591)	(855)
Net cash provided by operating activities	932	1,080
Cash flows from investing activities:		
Additions to property, plant and equipment	(188)	(197)
Capitalized software development costs	(156)	(128)
Purchases of short- and long-term available-for-sale securities	(1,361)	(2,421)
Sales of short- and long-term available-for-sale securities	887	1,311
Maturities of short- and long-term available-for-sale securities	965	422
Business acquisitions, net of cash acquired	(10)	(49)
Purchases of strategic and other related investments	(11)	(106)
Sales of strategic and other related investments	28	57
Decrease in restricted cash	2	—
Net cash provided by (used in) investing activities	156	(1,111)
Cash flows from financing activities:		
Proceeds from the issuance of EMC's common stock	105	121
Proceeds from the issuance of VMware's common stock	52	54
EMC repurchase of EMC's common stock	—	(1,346)
VMware repurchase of VMware's common stock	—	(438)
Excess tax benefits from stock-based compensation	2	20
Net payments for the issuance of short-term obligations	(376)	—
Dividend payment	(227)	(232)
Net cash used in financing activities	(444)	(1,821)
Effect of exchange rate changes on cash and cash equivalents	31	(103)
Net increase (decrease) in cash and cash equivalents	675	(1,955)
Cash and cash equivalents at beginning of period	6,549	6,343
Cash and cash equivalents at end of period	$7,224	$ 4,388
Reconciliation of net income to net cash provided by operating activities:		
Net income	$297	$ 291
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	483	470
Non-cash restructuring and other special charges	3	11
Stock-based compensation expense	304	245
Provision for (recovery of) doubtful accounts	(2)	16
Deferred income taxes, net	(19)	(20)
Excess tax benefits from stock-based compensation	(2)	(20)

Other, net	7	—
Changes in assets and liabilities, net of acquisitions:		
Accounts and notes receivable	1,019	1,420
Inventories	(40)	(69)
Other assets	(38)	(45)
Accounts payable	(580)	(575)
Accrued expenses	(421)	(376)
Income taxes payable	(500)	(754)
Deferred revenue	415	494
Other liabilities	6	(8)
Net cash provided by operating activities	$932	$ 1,080

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

6

Table of Contents

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

For the three months ended March 31, 2016:

	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Shareholders' Equity
Balance, January 1, 2016	1,943	$ 19	$ —	$21,700	$ (579)	$ 1,579	$ 22,719
Stock issued through stock option and stock purchase plans	5	1	105	—	—	—	106
Tax benefit from stock options exercised	—	—	(16)	—	—	—	(16)
Restricted stock grants, cancellations and withholdings, net	3	—	(38)	—	—	—	(38)
Stock issued through 401(k) stock match program	2	—	44	—	—	—	44
Reversal of reclass of previously repurchased common stock	—	—	(372)	372	—	—	—
Stock-based compensation	—	—	313	—	—	—	313
Cash dividends declared	—	—	—	(229)	—	—	(229)
Impact from equity transactions of non-controlling interests	—	—	(36)	—	—	65	29
Change in market value of investments	—	—	—	—	19	3	22
Change in market value of derivatives	—	—	—	—	(1)	1	—
Translation adjustment	—	—	—	—	3	—	3
Net income	—	—	—	268	—	29	297
Balance, March 31, 2016	1,953	$ 20	$ —	$22,111	$ (558)	$ 1,677	$ 23,250

For the three months ended March 31, 2015:

	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Shareholders' Equity
Balance, January 1, 2015	1,985	$ 20	$ —	$22,242	$ (366)	$ 1,629	$ 23,525
Stock issued through stock option and stock purchase plans	6	—	121	—	—	—	121
Tax benefit from stock options exercised	—	—	13	—	—	—	13
Restricted stock grants, cancellations and withholdings, net	5	—	(64)	—	—	—	(64)
Repurchase of common stock	(54)	(1)	(64)	(1,381)	—	—	(1,446)
Stock-based compensation	—	—	295	—	—	—	295
Cash dividends declared	—	—	—	(226)	—	—	(226)
Impact from equity transactions of non-controlling interests	—	—	(301)	—	—	(114)	(415)
Change in market value of investments	—	—	—	—	9	2	11

Change in market value of derivatives	—	—	—	—	4	(1)	3
Translation adjustment	—	—	—	—	(104)	—	(104)
Net income	—	—	—	252	—	39	291
Balance, March 31, 2015	1,942	$ 19	$ —	$ 20,887	$ (457)	$ 1,555	$ 22,004

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

Table of Contents
EMC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Company

EMC Corporation ("EMC" or "the Company") 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, Pivotal and Virtustream.

EMC's Information Infrastructure business provides a foundation for organizations to store, manage, protect, analyze and secure ever-increasing quantities of information, while at the same time improving business agility, lowering cost, and enhancing competitive advantage. EMC's Information Infrastructure business comprises three segments – Information Storage, Enterprise Content Division and RSA Information Security. The results of Virtustream are currently reported within our Information Storage segment.

EMC's VMware Virtual Infrastructure business, which is represented by EMC's majority equity stake in VMware, Inc. ("VMware"), is a leader in virtualization and cloud infrastructure solutions that enable businesses to help transform the way they build, deliver and consume IT resources in a manner that is based on their specific needs. 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, servers and mobile devices and support a wide range of operating system and application environments, as well as networking and storage infrastructures.

EMC's Pivotal business ("Pivotal") unites strategic technology, people and programs from EMC and VMware and has built a new platform comprised of next-generation data fabrics, application fabrics and a cloud independent platform-as-a-service ("PaaS") to support Big and Fast Data applications. On top of this platform is the Company's agile development services business. These capabilities are made available through Pivotal's three primary offerings: Pivotal Cloud Foundry, the Pivotal Big Data Suite and Pivotal Labs.

Proposed Transaction with Dell

On October 12, 2015, EMC entered into an Agreement and Plan of Merger (the "Merger Agreement") among EMC, Denali Holding Inc., a Delaware corporation ("Denali"), Dell Inc., a Delaware corporation ("Dell"), and Universal Acquisition Co., a Delaware corporation and direct wholly owned subsidiary of Denali ("Merger Sub"), pursuant to which, among other things and subject to the conditions set forth therein, Merger Sub will merge with and into EMC (the "Merger"), with EMC continuing as the surviving corporation and a wholly owned subsidiary of Denali.

At the effective time of the Merger ("Effective Time"), each share of EMC common stock issued and outstanding will be canceled and converted into the right to receive (i) $24.05 in cash and (ii) a number of shares of common stock of Denali designated as Class V Common Stock, par value $0.01 per share (the "Class V Common Stock"), equal to the quotient obtained by dividing (A) 222,966,450 by (B) the aggregate number of shares of EMC common stock issued and outstanding immediately prior to the Effective Time. The aggregate number of shares of Class V Common Stock issued as Merger Consideration in the transaction is intended to represent 65% of EMC's economic interest in the approximately 81% of the outstanding shares of VMware currently owned by EMC, reflecting approximately 53% of the total economic interest in the outstanding shares of VMware. Upon completion of the transaction, Denali will retain the remaining 28% of the total economic interest in the outstanding shares of VMware. Based on the estimated number of shares of EMC common stock outstanding at the closing of the transaction, EMC shareholders are expected to receive approximately 0.111 shares of Class V Common Stock for each share of EMC common stock.

The Merger Agreement contains specified termination rights for both Denali and EMC, including that, in general, either party may terminate the agreement if the Merger is not consummated on or before December 16, 2016. If EMC terminates the Merger Agreement, EMC is required to pay Denali a termination fee of $2.5 billion. If Denali terminates the Merger Agreement, they are required to pay a termination fee of $4 billion under specified circumstances, and in certain instances, an alternative termination fee of $6 billion.

The transaction is expected to close in mid-2016. The completion of the Merger is subject to certain conditions including EMC shareholder approval, the receipt of certain other regulatory approvals in various jurisdictions and the effectiveness of the registration statement on Form S-4 to be filed by Denali in connection with the registration of shares of Class V Common Stock issuable in connection with the Merger.

The Merger Agreement contains representations and warranties customary for transactions of this nature. EMC has agreed to various customary covenants and agreements, including, among others, agreements to conduct its business in the ordinary course during the period between the execution of the Merger Agreement and the effective time of the Merger. In addition, without the consent of Denali, EMC may not take, authorize, agree or commit to do certain actions outside of the ordinary course of business, including acquiring businesses or incurring capital expenditures above specified thresholds, issuing additional debt facilities and repurchasing outstanding EMC common stock.

Under the terms of the Merger Agreement, EMC is required to provide Denali with access to EMC's cash to help fund the Merger consideration. At this time, EMC has not finalized its plan to access such cash and has not determined if there would be a need to repatriate cash to meet the requirements of the Merger. To date, EMC has asserted overseas cash as indefinitely reinvested; however if these overseas funds are required to be repatriated to the U.S. in accordance with the Merger Agreement, EMC may be required to accrue and pay U.S. taxes to repatriate these funds.

Other than transaction expenses associated with the proposed Merger, the terms of the Merger Agreement did not impact EMC's consolidated financial statements as of and for the three months ended March 31, 2016.

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, 2015 which are contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 25, 2016.

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-month periods ended March 31, 2016 and 2015.

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. 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.

Recent Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued updated guidance related to stock-based compensation which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This standard is effective beginning January 1, 2017, with early application permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures.

In February 2016, the FASB issued a standard on leases which amends a number of aspects of lease accounting, including requiring lessees to recognize operating leases with a term greater than one year on their balance sheet as a right-of-use asset and corresponding lease liability, measured at the present value of the lease payments. The guidance also requires qualitative and quantitative disclosures designed to assess the amount, timing, and uncertainty of cash flows arising from leases. The standard requires modified retrospective adoption and is effective beginning January 1, 2019, with early adoption permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements and related disclosures.

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

2. Non-controlling Interests

The non-controlling interests' share of equity in VMware is reflected as a component of the non-controlling interests in the accompanying consolidated balance sheets and was $1,581 million and $1,481 million as of March 31, 2016 and December 31, 2015, respectively. At March 31, 2016, EMC held approximately 97% of the combined voting power of VMware's outstanding common stock and approximately 81% of the economic interest in VMware.

GE's interest in Pivotal is in the form of a preferred equity instrument. Consequently, there is no net income attributable to the GE 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.

The portion of the results of operations of Pivotal allocable to its other owners, along with the interest in the net assets of Pivotal attributable to those other owners are shown as a component of non-controlling interests on EMC's consolidated balance sheets and as a reduction of net income attributable to EMC shareholders.

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 $96 million and $98 million as of March 31, 2016 and December 31, 2015, respectively. At March 31, 2016, EMC consolidated held approximately 83% of the economic interest in Pivotal.

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

	For the Three Months Ended	
	March 31, 2016	March 31, 2015
Net income attributable to EMC Corporation	$268	$ 252
Transfers (to) from the non-controlling interests:		
Increase in EMC Corporation's additional paid-in-capital for VMware and Pivotal equity issuances	21	30
Decrease in EMC Corporation's additional paid-in-capital for VMware's and Pivotal's other equity activity	(57)	(331)
Net transfers (to) from non-controlling interest	(36)	(301)
Change from net income attributable to EMC Corporation and transfers from the non-controlling interest in VMware, Inc.	$232	$ (49)

3. Debt

Short-Term Debt

On February 27, 2015, we entered into a credit agreement with the lenders named therein, Citibank, N.A., as Administrative Agent, Bank of America, N.A. and JPMorgan Chase Bank, N.A., as Syndication Agents, and Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities LLC, as Joint Lead Arrangers and Joint Bookrunners (the "Credit Agreement"). The Credit Agreement provides for a $2.5 billion unsecured revolving credit facility to be used for general corporate purposes that is scheduled to mature on February 27, 2020. At our option, subject to certain conditions, any loan under the Credit Agreement will bear interest at a rate equal to, either (i) the LIBOR Rate or (ii) the Base Rate (defined as the highest of (a) the Federal Funds rate plus 0.50%, (b) Citibank, N.A.'s "prime rate" as announced from time to time, or (c) one-month LIBOR plus 1.00%), plus, in each case the Applicable Margin, as defined in the Credit Agreement. The Credit Agreement contains customary representations and warranties, covenants and events of default. We may also, upon the agreement of the existing lenders and/or additional lenders not currently parties to the agreement, increase the commitments under the credit facility by up to an additional $1.0 billion. In addition, we may request to extend the maturity date of the credit facility, subject to certain conditions, for additional one-year periods. As of March 31, 2016, we were in compliance with customary required covenants. At March 31, 2016, we had no funds borrowed and at December 31, 2015, we had $600 million outstanding under the credit facility. Amounts outstanding under the credit facility are presented in short-term debt in the consolidated balance sheets with the issuances and proceeds presented on a net basis in the consolidated statement of cash flows due to their short term nature.

On March 23, 2015, we established a short-term debt financing program whereby we may issue short-term unsecured commercial paper notes ("Commercial Paper"). Amounts available under the program may be borrowed, repaid and re-borrowed from time to time, with the aggregate face or principal amount of the notes outstanding at any time not to exceed $2.5 billion. The Commercial Paper will have maturities of up to 397 days from the date of issue. The net proceeds from the issuance of the Commercial Paper are expected to be used for general corporate purposes. As of March 31, 2016, we were in compliance with customary required covenants. At March 31, 2016, we had $925 million of Commercial Paper outstanding, with a weighted-average interest rate of 0.95% and maturities ranging from 13 days to 30 days at the time of issuance. At December 31, 2015, we had $699 million of Commercial Paper outstanding. Commercial Paper outstanding is presented in short-term debt in the consolidated balance sheets, and the issuances and proceeds of the Commercial Paper are presented on a net basis in the consolidated statement of cash flows due to their short term nature. At May 5, 2016, we had $1,285 million of Commercial Paper outstanding.

Long-Term Debt

During 2013, we issued $5.5 billion of Notes which pay a fixed rate of interest semi-annually in arrears. The proceeds from the Notes were used to satisfy the cash payment obligation of the $1,725 billion 1.75% convertible senior notes due 2013 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 March 31, 2016, we were in compliance with all debt covenants, which are customary in nature.

Our long-term debt as of March 31, 2016 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 %	1,997
$1.0 billion 3.375% Notes due 2023	99.925 %	1,000
		$ 5,496
Debt issuance costs		(19)
Net long-term debt		$ 5,477

The unamortized discount on the Notes consists of $4 million, which will be fully amortized by June 1, 2023. The effective interest rate on the Notes was 2.55% for the three months ended March 31, 2016.

4. 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 March 31, 2016, 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 March 31, 2016 and December 31, 2015. At March 31, 2016 and December 31, 2015, 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 March 31, 2016 and December 31, 2015, auction rate securities were valued using a discounted cash flow model.

The following tables summarize the composition of our short- and long-term investments at March 31, 2016 and December 31, 2015 (tables in millions):

	March 31, 2016			
	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Aggregate Fair Value
U.S. government and agency obligations	$2,054	$ 5	$ (1)	$ 2,058
U.S. corporate debt securities	2,364	11	(2)	2,373
High yield corporate debt securities	220	3	(8)	215
Asset-backed securities	13	—	—	13
Municipal obligations	640	—	—	640
Auction rate securities	25	—	(2)	23
Foreign debt securities	2,298	6	(2)	2,302
Total fixed income securities	7,614	25	(15)	7,624
Publicly traded equity securities	113	18	(9)	122
Total	$7,727	$ 43	$ (24)	$ 7,746

	December 31, 2015			
	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Aggregate Fair Value
U.S. government and agency obligations	$2,449	$ —	$ (8)	$ 2,441
U.S. corporate debt securities	2,257	1	(10)	2,248
High yield corporate debt securities	307	2	(22)	287
Asset-backed securities	20	—	—	20
Municipal obligations	731	1	—	732
Auction rate securities	27	—	(2)	25
Foreign debt securities	2,332	—	(9)	2,323
Total fixed income securities	8,123	4	(51)	8,076
Publicly traded equity securities	126	40	(8)	158
Total	$8,249	$ 44	$ (59)	$ 8,234

We held approximately $2,302 million in foreign debt securities at March 31, 2016. These securities have an average credit rating of A+, and approximately 4% of these securities are deemed sovereign debt with an average credit rating of AA+. None of the securities deemed sovereign debt are from Argentina, Greece, Italy, Ireland, Portugal, Spain, Cyprus or Puerto Rico.

The following tables represent our fair value hierarchy for our financial assets and liabilities measured at fair value as of March 31, 2016 and December 31, 2015 (tables in millions):

	March 31, 2016			
	Level 1	Level 2	Level 3	Total
Cash	$2,305	$—	$—	$2,305
Cash equivalents	4,025	894	—	4,919
U.S. government and agency obligations	1,258	800	—	2,058
U.S. corporate debt securities	—	2,373	—	2,373
High yield corporate debt securities	—	215	—	215
Asset-backed securities	—	13	—	13
Municipal obligations	—	640	—	640
Auction rate securities	—	—	23	23
Foreign debt securities	—	2,302	—	2,302
Publicly traded equity securities	122	—	—	122
Total cash and investments	$7,710	$7,237	$23	$14,970
Other items:				
Strategic investments held at cost	$—	$—	$385	$385
Investment in joint venture	—	—	39	39
Long-term debt carried at discounted cost	—	(5,186)	—	(5,186)
Foreign exchange derivative assets	—	74	—	74
Foreign exchange derivative liabilities	—	(79)	—	(79)
Commodity derivative liabilities	—	(6)	—	(6)

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Cash	$2,095	$—	$—	$2,095
Cash equivalents	3,861	593	—	4,454
U.S. government and agency obligations	1,495	946	—	2,441
U.S. corporate debt securities	—	2,248	—	2,248
High yield corporate debt securities	—	287	—	287
Asset-backed securities	—	20	—	20
Municipal obligations	—	732	—	732
Auction rate securities	—	—	25	25
Foreign debt securities	—	2,323	—	2,323
Publicly traded equity securities	158	—	—	158
Total cash and investments	$7,609	$7,149	$25	$14,783
Other items:				
Strategic investments held at cost	$—	$—	$384	$384
Investment in joint venture	—	—	39	39
Long-term debt carried at discounted cost	—	(4,999)	—	(4,999)
Foreign exchange derivative assets	—	39	—	39
Foreign exchange derivative liabilities	—	(78)	—	(78)
Commodity derivative liabilities	—	(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 $4 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.

Table of Contents

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 March 31, 2016, the coupon rates used ranged from 1% 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 March 31, 2016. 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 March 31, 2016 and December 31, 2015 due to the narrowing of credit spreads on AA-rated banks during 2015 and into 2016.

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

During the three months ended March 31, 2016 and 2015, there were no material changes to the fair value of our auction rate securities.

EMC has a 49% ownership percentage of LenovoEMC Limited, a joint venture with Lenovo that was formed in 2012. We account for our LenovoEMC joint venture using the fair value method of accounting. To determine the estimated fair value at inception of our investment, we used a discounted cash flow model using a three year time horizon, and utilized a discount rate of 6%, which represented the incremental borrowing rate for a market participant. The assumptions used in preparing the discounted cash flow model include an analysis of estimated Lenovo NAS revenue against a prescribed target as well as consideration of the purchase price put and call features included in the joint venture agreement. The put and call features create a floor and a cap on the fair value of the investment. As such, there is a limit to the impact on the fair value that would result from significant changes in the unobservable inputs. There were no material changes to the fair value of this joint venture during the three months ended March 31, 2016 or 2015.

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

Investment Losses

Unrealized losses on investments at March 31, 2016 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	$466	$ (1)	$—	$ —	$466	$ (1)
U.S. corporate debt securities	485	(2)	—	—	485	(2)
High yield corporate debt securities	99	(6)	23	(2)	122	(8)
Auction rate securities	—	—	23	(2)	23	(2)
Foreign debt securities	721	(1)	81	(1)	802	(2)
Publicly traded equity securities	2	(1)	2	(8)	4	(9)
Total	$1,773	$ (11)	$129	$ (13)	$1,902	$ (24)

For all of our securities for which the amortized cost basis was greater than the fair value at March 31, 2016, 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.

Contractual Maturities

The contractual maturities of fixed income securities held at March 31, 2016 are as follows (table in millions):

	March 31, 2016	
	Amortized Cost Basis	Aggregate Fair Value
Due within one year	$2,542	$ 2,543
Due after 1 year through 5 years	4,496	4,509
Due after 5 years through 10 years	332	330
Due after 10 years	244	242
Total	$7,614	$ 7,624

Short-term investments on the consolidated balance sheet include $34 million in variable rate notes which have contractual maturities in 2016, and are not classified within investments due within one year above.

5. Inventories

Inventories consist of (table in millions):

	March 31, 2016	December 31, 2015
Work-in-process	$ 590	$ 592
Finished goods	643	653
	$ 1,233	$ 1,245

6. 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 March 31, 2016 were as follows (table in millions):

Year	Contractual Amounts Due Under Leases
Due within one year	$ 50
Due within two years	37
Due within three years	26
Thereafter	3
Total	116
Less: Amounts representing interest	7
Present value	109
Current portion (included in accounts and notes receivable)	46
Long-term portion (included in other assets, net)	$ 63

Subsequent to March 31, 2016, we sold $19 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.

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

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 March 31, 2016, amounts from lease receivables past due for more than 90 days were not significant.

During the three months ended March 31, 2016 and 2015, there were no material changes to our allowance for credit losses related to lease receivables. Gross lease receivables totaled $116 million and $154 million as of March 31, 2016 and December 31, 2015, respectively, before the allowance. The components of these balances were individually evaluated for impairment and included in our allowance determination as necessary.

7. Property, Plant and Equipment

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

	March 31, 2016	December 31, 2015
Furniture and fixtures	$ 286	$ 283
Equipment and software	7,474	7,378
Buildings and improvements	2,382	2,373
Land	172	171
Building construction in progress	97	83
	10,411	10,288
Accumulated depreciation	(6,605)	(6,438)
	$ 3,806	$ 3,850

Property, plant and equipment at March 31, 2016 includes $52 million for facilities not yet placed in service that we are holding for future use.

8. Accrued Expenses

Accrued expenses consist of (table in millions):

	March 31, 2016	December 31, 2015
Salaries and benefits	$ 957	$ 1,189
Product warranties	151	172
Dividends payable (see Note 10)	239	234
Partner rebates	181	221
Restructuring, current (See Note 11)	250	333
Derivatives	85	82
Other	859	892
	$ 2,722	$ 3,123

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 months ended March 31, 2016 and 2015 (table in millions):

	For the Three Months Ended	
	March 31, 2016	March 31, 2015
Balance, beginning of the period	$172	$ 207
Provision	25	33
Amounts charged against the accrual	(46)	(52)
Balance, end of the period	$151	$ 188

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.

9. Income Taxes

Our effective income tax rates were 23.1% and 22.0% for the three months ended March 31, 2016 and 2015, 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 months ended March 31, 2016, 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 federal tax credit for increasing research activities. 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 months ended March 31, 2015, the effective income tax rate varied from the statutory income tax rate principally as a result of the mix of income attributable to foreign versus domestic jurisdictions. On December 18, 2015, the Consolidated Appropriations Act, 2016 was signed into law. Some of the provisions were retroactive to January 1, 2015 including a permanent extension of the U.S. federal tax credit for increasing research activities.

Our effective income tax rate increased in the three months ended March 31, 2016 from the three months ended March 31, 2015 due primarily to higher state taxes. 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. In the third quarter of 2012, the IRS commenced a federal income tax audit for the tax years 2009 and 2010. The IRS completed their field audit for the tax years 2009 and 2010 and issued Revenue Agent Reports ("RARs") in the first quarter of 2016. We disagree with certain proposed adjustments and have filed a formal protest to the IRS Appeals Division. In the first quarter of 2015, the IRS commenced a federal income tax audit for the tax year 2011, which is still ongoing. 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 consolidated balance sheets. We anticipate that several of these audits may be finalized within the next twelve months. While we expect the amount of unrecognized tax benefits to change in the next twelve months, we do not expect the change to have a significant impact on our consolidated results of operations or financial position.

10. 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	
	March 31, 2016	March 31, 2015
Numerator:		
Net income attributable to EMC Corporation	$268	$ 252
Incremental dilution from VMware	—	(1)
Net income – dilution attributable to EMC Corporation	$268	$ 251
Denominator:		
Weighted average shares, basic	1,949	1,974
Weighted common stock equivalents	16	22
Weighted average shares, diluted	1,965	1,996

Restricted stock awards, restricted stock units and options to acquire shares of our common stock in the amount of 2 million and 1 million for the three months ended March 31, 2016 and 2015, respectively, were excluded from the calculation of diluted earnings per share because they were anti-dilutive. The incremental dilution from VMware represents the impact of VMware's dilutive securities on EMC's consolidated diluted net income per share and is calculated by multiplying the difference between VMware's basic and diluted earnings per share by the number of VMware shares owned by EMC.

Repurchase of Common Stock

We utilize both authorized and unissued shares (including repurchased shares) for all issuances under our equity plans. Our Board of Directors authorized the repurchase of 250 million shares of our common stock in December 2014. For the three months ended March 31, 2016, we did not repurchase any shares of our common stock. Of the 250 million shares authorized for repurchase, we have repurchased 27 million shares to-date at a total cost of $715 million, leaving a remaining balance of 223 million shares authorized for future repurchases.

During April 2016, VMware's Board of Directors authorized the repurchase of up to an aggregate of $1.2 billion of VMware's Class A common stock through the end of 2016, which includes the amount remaining from VMware's previous stock repurchase authorization announced on January 27, 2015, which was $835 million as of March 31, 2016. All shares repurchased under VMware's stock repurchase programs are retired. For the three months ended March 31, 2016, VMware did not repurchase any shares of its Class A common stock as it is currently subject to a number of legal and regulatory constraints resulting from the Merger Agreement which impacts the timing and ability to execute repurchases of VMware's shares.

Cash Dividend on Common Stock

EMC pays a quarterly dividend of $0.115 per share of common stock to EMC shareholders, subject to the approval of our Board of Directors. Our Board of Directors declared the following dividends during 2016 and 2015:

Declaration Date	Dividend Per Share	Record Date	Total Amount (in millions)	Payment Date
2016:				
February 11, 2016	$ 0.115	April 1, 2016	$ 229	April 22, 2016

2015:				
February 27, 2015	$ 0.115	April 1, 2015	$ 229	April 23, 2015
May 20, 2015	$ 0.115	July 1, 2015	$ 226	July 23, 2015
July 30, 2015	$ 0.115	October 1, 2015	$ 229	October 23, 2015
December 17, 2015	$ 0.115	January 4, 2016	$ 230	January 22, 2016

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

Accumulated Other Comprehensive Income (Loss)
Changes in accumulated other comprehensive income (loss), which is presented net of tax, for the three months ended March 31, 2016 and 2015 consist of the following (tables in millions):

	Foreign Currency Translation Adjustments	Unrealized Net Gains on Investments	Unrealized Net Losses on Derivatives	Recognition of Actuarial Net Loss from Pension and Other Postretirement Plans	Accumulated Other Comprehensive Income Attributable to the Non-controlling Interest in VMware, Inc.	Total
Balance as of December, 31 2015[(a)]	$ (356)	$ (10)	$ (89)	$ (125)	$ 1	$(579)
Other comprehensive income (loss) before reclassifications	3	20	(4)	—	(4)	15
Net losses (gains) reclassified from accumulated other comprehensive income	—	2	4	—	—	6
Net current period other comprehensive income (loss)	3	22	—	—	(4)	21
Balance as of March 31, 2016[(b)]	$ (353)	$ 12	$ (89)	$ (125)	$ (3)	$(558)

(a) Net of taxes (benefits) of $(5) million for unrealized net gains on investments, $(56) million for unrealized net losses on derivatives and $(71) million for actuarial net loss on pension plans.
(b) Net of taxes (benefits) of $7 million for unrealized net gains on investments, $(55) million for unrealized net losses on derivatives and $(71) million for actuarial net loss on pension plans.

	Foreign Currency Translation Adjustments	Unrealized Net Gains on Investments	Unrealized Net Losses on Derivatives	Recognition of Actuarial Net Loss from Pension and Other Postretirement Plans	Accumulated Other Comprehensive Income Attributable to the Non-controlling Interest in VMware, Inc.	Total
Balance as of December, 31 2014[(a)]	$ (187)	$ 49	$ (99)	$ (126)	$ (3)	$(366)
Other comprehensive income (loss) before reclassifications	(104)	19	14	—	(1)	(72)
Net losses (gains) reclassified from accumulated other comprehensive income	—	(8)	(11)	—	—	(19)
Net current period other comprehensive income (loss)	(104)	11	3	—	(1)	(91)
Balance as of March 31, 2015[(b)]	$ (291)	$ 60	$ (96)	$ (126)	$ (4)	$(457)

(a)

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

(b) Net of taxes (benefits) of $38 million for unrealized net gains on investments, $(61) million for unrealized net losses on derivatives and $(70) million for actuarial net loss on pension plans.

19

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

The amounts reclassified out of accumulated other comprehensive income (loss) for the three months ended March 31, 2016 and 2015 are as follows (table in millions):

Accumulated Other Comprehensive Income Components	For the Three Months Ended March 31, 2016	For the Three Months Ended March 31, 2015	Impacted Line Item on Consolidated Income Statements
Net (loss) gain on investments:	$(2)	$ 14	Investment income
	—	(6)	Provision for income tax
Net of tax	$(2)	$ 8	
Net (loss) gain on derivatives:			
Foreign exchange contracts	$—	$ 20	Product sales revenue
Foreign exchange contracts	—	(3)	Cost of product sales
Interest rate swap	(6)	(6)	Other interest expense
Total net (loss) gain on derivatives before tax	(6)	11	
	2	—	Provision for income tax
Net of tax	$(4)	$ 11	

11. Restructuring and Acquisition-Related Charges

For the three months ended March 31, 2016 and 2015, we incurred restructuring and acquisition-related charges of $49 million and $135 million, respectively. For the three months ended March 31, 2016, EMC incurred a $5 million credit related to our prior restructuring programs. For the three months ended March 31, 2016, VMware incurred $53 million of restructuring charges, primarily related to its current year restructuring program, and $1 million of charges in connection with acquisitions for financial, advisory, legal and accounting services.

For the three months ended March 31, 2015, EMC incurred $111 million of restructuring charges, primarily related to our 2015 restructuring programs, and $1 million of charges in connection with acquisitions for financial, advisory, legal and accounting services. For the three months ended March 31, 2015, VMware incurred $22 million of restructuring charges, primarily related to its 2015 restructuring programs, and $1 million of charges in connection with acquisitions for financial, advisory, legal and accounting services.

In the first quarter of 2016, EMC did not commence any new restructuring programs. In the first quarter of 2016, VMware approved a plan to streamline its operations, with plans to reinvest the associated savings in field, technical and support resources associated with growth products. As a result, approximately 800 positions at VMware were eliminated during the three months ended March 31, 2016. All actions relating to VMware’s plan are expected to be completed within a year of the start of the program.

In the first quarter of 2015, EMC implemented restructuring programs to create further operational efficiencies which resulted in a workforce reduction of approximately 1,320 positions. The actions impacted positions around the globe covering our Information Storage, RSA Information Security and Enterprise Content Division segments. All of these actions were completed within a year of the start of the program. In the first quarter of 2015, VMware eliminated approximately 350 positions across all major functional groups and geographies to streamline its operations. All of these actions were completed within a year of the start of the program.

For the three months ended March 31, 2016 and 2015, we recognized $5 million and $6 million, respectively, of lease termination costs for facilities vacated in the period in accordance with our plan as part of all of our restructuring programs and for costs associated with terminating other contractual obligations. These accruals are expected to be utilized by the end of 2018.

EMC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

Three Months Ended March 31, 2016:
Other EMC Programs

Category	Balance as of December 31, 2015	2016 Charges	Utilization	Balance as of March 31, 2016
Workforce reductions	$ 322	$ (10)	$ (99)	$ 213
Consolidation of excess facilities and other contractual obligations	20	5	(3)	22
Total	$ 342	$ (5)	$ (102)	$ 235

VMware Programs

Category	Balance as of December 31, 2015	2016 Charges	Utilization	Balance as of March 31, 2016
Workforce reductions	$ 3	$ 50	$ (26)	$ 27
Consolidation of excess facilities and other contractual obligations	—	3	—	3
Total	$ 3	$ 53	$ (26)	$ 30

Three Months Ended March 31, 2015:
2015 EMC Programs

Category	Balance as of December 31, 2014	2015 Charges	Utilization	Balance as of March 31, 2015
Workforce reductions	$ —	$ 107	$ (11)	$ 96
Consolidation of excess facilities and other contractual obligations	—	6	—	6
Total	$ —	$ 113	$ (11)	$ 102

Other EMC Programs

Category	Balance as of December 31, 2014	Adjustments to the Provision	Utilization	Balance as of March 31, 2015
Workforce reductions	$ 102	$ (2)	$ (39)	$ 61
Consolidation of excess facilities and other contractual obligations	19	—	(5)	14
Total	$ 121	$ (2)	$ (44)	$ 75

VMware Programs

Category	Balance as of December 31, 2014	2015 Charges	Utilization	Balance as of March 31,

				2015
Workforce reductions	$ 8	$ 22	$ (14)	$ 16
Consolidation of excess facilities and other contractual obligations	—	—	—	—
Total	$ 8	$ 22	$ (14)	$ 16

12. 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.

Merger-Related Litigation

As of May 5, 2016, fifteen putative shareholder class action lawsuits challenging the Merger have been filed, of which thirteen were filed purportedly on behalf of Company shareholders and two purportedly on behalf of VMware shareholders. The lawsuits name various combinations of the Company, its current and former directors, VMware, certain of VMware’s directors, Denali, Dell and Merger Sub, among others, as defendants. The fifteen lawsuits seek, among other things, injunctive relief enjoining the Merger, rescission of the Merger if consummated, an award of fees and costs and/or an award of monetary damages. The suits are captioned as follows:

Case		Court	Filing Date
1.	IBEW Local No. 129 Benefit Fund v. Tucci, Civ. No. 1584-3130-BLS1	Mass. Superior Court, Suffolk County	10/15/2015
2.	Barrett v. Tucci, Civ. No. 15-6023-A	Mass. Superior Court, Middlesex County	10/16/2015
3.	Graulich v. Tucci, Civ. No. 1584-3169-BLS1	Mass. Superior Court, Suffolk County	10/19/2015
4.	Vassallo v. EMC Corp., Civ. No. 1584-3173-BLS1	Mass. Superior Court, Suffolk County	10/19/2015
5.	City of Miami Police Relief & Pension Fund v. Tucci, Civ. No. 1584-3174-BLS1	Mass. Superior Court, Suffolk County	10/19/2015
6.	Lasker v. EMC Corp., Civ. No. 1584-3214-BLS1	Mass. Superior Court, Suffolk County	10/23/2015
7.	Walsh v. EMC Corp., Civ. No. 15-13654	U.S. District Court, District of Massachusetts	10/27/2015
8.	Local Union No. 373 U.A. Pension Plan v. EMC Corp., Civ. No. 1584-3253-BLS1	Mass. Superior Court, Suffolk County	10/28/2015
9.	City of Lakeland Emps.’ Pension & Ret. Fund v. Tucci, Civ. No. 1584-3269-BLS1	Mass. Superior Court, Suffolk County	10/28/2015
10.	Ma v. Tucci, Civ. No. 1584-3281-BLS1	Mass. Superior Court, Suffolk County	10/29/2015
11.	Stull v. EMC Corp., Civ. No. 15-13692	U.S. District Court, District of Massachusetts	10/30/2015
12.	Jacobs v. EMC Corp., Civ. No. 15-6318-H	Mass. Superior Court, Middlesex County	11/12/2015
13.	Ford v. VMware, Inc., C.A. No. 11714-VCL	Delaware Chancery Court	11/17/2015
14.	Pancake v. EMC Corp., Civ. No. 16-10040	U.S. District Court, District of Massachusetts	1/11/2016
15.	Booth Family Trust v. EMC Corp.,	U.S. District Court,	1/26/2016

Civ. No. 16-10114	District of Massachusetts

Of the thirteen lawsuits filed purportedly on behalf of Company shareholders, nine were filed in Massachusetts state court, and four in the United States District Court for the District of Massachusetts. Eleven of the lawsuits initially advanced substantially the same allegations that the Merger Agreement was adopted in violation of the fiduciary duties of the Company's directors. Certain of those lawsuits also alleged that the Company, Denali, Dell, Merger Sub, Silver Lake Partners, LLC, and/or MSD Partners, LLC aided and abetted the alleged breaches of fiduciary duty by the directors.

On November 5, 2015, pursuant to a motion made by the Company and its directors, the nine lawsuits then pending in state court in Massachusetts were consolidated with and into the first-filed of those actions, IBEW Local No. 129 Benefit Fund v. Joseph

M. Tucci, et al. That action, brought in the Business Litigation Session of the Suffolk County Superior Court, named as defendants the Company and each member of its Board of Directors (as constituted as of October 12, 2015), Denali, Dell and Merger Sub.

The Company and its directors moved to dismiss the amended complaint in the IBEW matter pursuant to provisions of the Massachusetts Business Corporation Act, M.G.L. c. 156D, § 7.40 et seq., and Rules 12(b)(6) and 23.1 of the Massachusetts Rules of Civil Procedure, on the basis that the complaint asserts a derivative action on behalf of the Company and should be dismissed for failure to make the requisite pre-suit demand on the Company. On December 7, 2015 the Court granted this motion and on December 24, 2015 the court entered judgment dismissing each of the consolidated actions. On January 21, 2016, three of the plaintiffs served notice that they will appeal this judgment. On April 29, 2016, the appeal was docketed in the Massachusetts Appeals Court as case number 2016-P-0595. On May 2, 2016, the appellants filed an application for direct appellate review in the Massachusetts Supreme Judicial Court as Direct Appellate Review No. DAR-24347.

On January 11, 2016, following the state court judgment and a motion by the Company and its directors to stay or dismiss the two lawsuits then pending in the United States District Court for the District of Massachusetts, the plaintiffs in those cases amended their complaints to eliminate the initial claims based on Massachusetts state law and substitute allegations that the preliminary proxy statement/prospectus dated December 14, 2015 omits and/or misrepresents material information and that such omissions and misrepresentations constitute violations of Section 14(a) of, and Rule 14a-9 under, the Securities Exchange Act of 1934. Two additional lawsuits have since been filed in the same court advancing substantially the same proxy-disclosure-based allegations.

Of the two lawsuits filed purportedly on behalf of VMware shareholders, one was filed in Middlesex County Superior Court in Massachusetts, and the other in Delaware Chancery Court. Both generally allege that the Company, in its capacity as the majority shareholder of VMware, and individual defendants who are directors of the Company, VMware, or both, breached their fiduciary duties to minority shareholders of VMware in connection with the Merger. Both further allege that various combinations of defendants aided and abetted these alleged breaches of fiduciary duties. The Company, VMware, Denali, Dell, Merger Sub, and other defendants have served or filed motions to dismiss the operative complaints in both actions.

The outcome of these lawsuits is uncertain, and additional lawsuits may be brought or additional claims advanced concerning the Merger. An adverse judgment for monetary damages could have an adverse effect on the Company's operations. A preliminary injunction could delay or jeopardize the completion of the Merger, and an adverse judgment granting permanent injunctive relief could indefinitely enjoin completion of the Merger.

13. Segment Information

We manage the Company as a federation of businesses: EMC Information Infrastructure, VMware Virtual Infrastructure, Pivotal and Virtustream. EMC Information Infrastructure operates in three segments: Information Storage, Enterprise Content Division and RSA Information Security, while VMware Virtual Infrastructure and Pivotal each operate as single segments. The results of Virtustream are currently reported within our Information Storage segment.

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

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

Our segment information for the three months ended March 31, 2016 and 2015 is as follows (tables in millions, except percentages):

	EMC Information Infrastructure					
	Information Storage	Enterprise Content Division	RSA Information Security	EMC Information Infrastructure	Pivotal	EMC Information Infrastructure plus Pivotal
Three Months Ended March 31, 2016						
Revenues:						
Product revenues	$1,960	$ 29	$ 95	$ 2,084	$27	$ 2,111
Services revenues	1,487	105	133	1,725	56	1,781
Total consolidated revenues	3,447	134	228	3,809	83	3,892
Gross profit	$1,711	$ 91	$ 151	$ 1,953	$34	$ 1,987
Gross profit percentage	49.6 %	68.0 %	66.4 %	51.3 %	41.2 %	51.1 %
Research and development				378	34	412
Selling, general and administrative				1,084	58	1,142
Restructuring and acquisition-related charges				—	—	—
Total operating expenses				1,462	92	1,554
Operating income (expense)				$ 491	$(58)	$ 433

	EMC Information Infrastructure plus Pivotal	VMware Virtual Infrastructure	Corp Reconciling Items	Consolidated
Three Months Ended March 31, 2016				
Revenues:				
Product revenues	$ 2,111	$ 571	$ —	$ 2,682
Services revenues	1,781	1,012	—	2,793
Total consolidated revenues	3,892	1,583	—	5,475
Gross profit	$ 1,987	$ 1,373	$ (100)	$ 3,260
Gross profit percentage	51.1 %	86.7 %	— %	59.5 %
Research and development	412	283	119	814
Selling, general and administrative	1,142	644	201	1,987
Restructuring and acquisition-related charges	—	—	49	49
Total operating expenses	1,554	927	369	2,850
Operating income (expense)	433	446	(469)	410
Non-operating income (expense), net	(15)	9	(18)	(24)
Income tax provision (benefit)	75	128	(114)	89
Net income	343	327	(373)	297

Net income attributable to the non-controlling interests	1	(68)	38	(29)
Net income attributable to EMC Corporation	$ 344	$ 259	$ (335)	$ 268

24

Table of Contents

EMC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	EMC Information Infrastructure					
	Information Storage	Enterprise Content Division	RSA Information Security	EMC Information Infrastructure	Pivotal	EMC Information Infrastructure plus Pivotal
Three Months Ended March 31, 2015						
Revenues:						
Product revenues	$2,179	$ 27	$ 100	$ 2,306	$ 16	$ 2,322
Services revenues	1,484	111	148	1,743	38	1,781
Total consolidated revenues	3,663	138	248	4,049	54	4,103