EMC CORP
Form 10-Q
May 01, 2014
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, 2014

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, 2014 was 2,047,299,647.

Table of Contents

EMC CORPORATION

	Page No.
PART I — FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited)	
Consolidated Balance Sheets at March 31, 2014 and December 31, 2013	3
Consolidated Income Statements for the Three Months Ended March 31, 2014 and 2013	4
Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2014 and 2013	5
Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2014 and 2013	6
Consolidated Statements of Shareholders' Equity for the Three Months Ended March 31, 2014 and 2013	7
Notes to Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	29
Item 3. Quantitative and Qualitative Disclosures About Market Risk	42
Item 4. Controls and Procedures	42
PART II — OTHER INFORMATION	
Item 1. Legal Proceedings	43
Item 1A. Risk Factors	43
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	53
Item 3. Defaults Upon Senior Securities	53
Item 4. Mine Safety Disclosures	53
Item 5. Other Information	53
Item 6. Exhibits	53
SIGNATURES	54
EXHIBIT INDEX	55

FACTORS THAT MAY AFFECT FUTURE RESULTS

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

Table of Contents

PART I
FINANCIAL INFORMATION

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

	March 31, 2014 (unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$6,291	$ 7,891
Short-term investments	1,964	2,773
Accounts and notes receivable, less allowance for doubtful accounts of $62 and $62	2,981	3,861
Inventories	1,421	1,334
Deferred income taxes	941	912
Other current assets	597	507
Total current assets	14,195	17,278
Long-term investments	7,006	6,924
Property, plant and equipment, net	3,568	3,478
Intangible assets, net	1,941	1,780
Goodwill	15,301	14,424
Other assets, net	2,036	1,965
Total assets	$44,047	$ 45,849
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,070	$ 1,434
Accrued expenses	2,668	2,783
Notes converted and payable (See Note 4)	—	1,665
Income taxes payable	71	639
Deferred revenue	5,556	5,278
Total current liabilities	9,365	11,799
Income taxes payable	285	296
Deferred revenue	4,116	3,701
Deferred income taxes	428	421
Long-term debt (See Note 4)	5,494	5,494
Other liabilities	364	352
Total liabilities	20,052	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 2,047 and 2,020 shares	20	20
Additional paid-in capital	1,363	1,406
Retained earnings	21,297	21,114
Accumulated other comprehensive loss, net	(228)	(239)
Total EMC Corporation's shareholders' equity	22,452	22,301

Non-controlling interests	1,543	1,485
Total shareholders' equity	23,995	23,786
Total liabilities and shareholders' equity	$44,047	$ 45,849

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, 2014	March 31, 2013
Revenues:		
Product sales	$3,008	$3,112
Services	2,471	2,275
	5,479	5,387
Costs and expenses:		
Cost of product sales	1,296	1,356
Cost of services	836	733
Research and development	731	676
Selling, general and administrative	1,852	1,713
Restructuring and acquisition-related charges	119	148
Operating income	645	761
Non-operating income (expense):		
Investment income	36	33
Interest expense	(34)	(21)
Other expense, net	(76)	(82)
Total non-operating income (expense)	(74)	(70)
Income before provision for income taxes	571	691
Income tax provision	139	76
Net income	432	615
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(40)	(35)
Net income attributable to EMC Corporation	$392	$580
Net income per weighted average share, basic attributable to EMC Corporation common shareholders	$0.19	$0.28
Net income per weighted average share, diluted attributable to EMC Corporation common shareholders	$0.19	$0.26
Weighted average shares, basic	2,029	2,102
Weighted average shares, diluted	2,076	2,189
Cash dividends declared per common share	$0.10	$—

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, 2014	March 31, 2013
Net income	$432	$615
Other comprehensive income (loss), net of taxes (benefits):		
Foreign currency translation adjustments	(4)	(31)
Changes in market value of investments:		
Changes in unrealized gains (losses), net of taxes (benefits) of $14 and $1	24	1
Reclassification adjustment for net losses (gains) realized in net income, net of benefits (taxes) of $(3) and $(2)	(5)	(4)
Net change in market value of investments	19	(3)
Changes in market value of derivatives:		
Changes in unrealized gains (losses), net of taxes (benefits) of $(1) and $1	(1)	6
Reclassification adjustment for net losses (gains) included in net income, net of benefits (taxes) of $0 and $(1)	(2)	(5)
Net change in the market value of derivatives	(3)	1
Other comprehensive income (loss)	12	(33)
Comprehensive income	444	582
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(40)	(35)
Less: Other comprehensive income attributable to the non-controlling interest in VMware, Inc.	(1)	—
Comprehensive income attributable to EMC Corporation	$403	$547

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, 2014	March 31, 2013
Cash flows from operating activities:		
Cash received from customers	$6,965	$6,616
Cash paid to suppliers and employees	(4,962)	(4,405)
Dividends and interest received	55	39
Interest paid	—	(1)
Income taxes paid	(720)	(536)
Net cash provided by operating activities	1,338	1,713
Cash flows from investing activities:		
Additions to property, plant and equipment	(275)	(165)
Capitalized software development costs	(117)	(106)
Purchases of short- and long-term available-for-sale securities	(2,931)	(1,819)
Sales of short- and long-term available-for-sale securities	2,362	1,414
Maturities of short- and long-term available-for-sale securities	1,307	387
Business acquisitions, net of cash acquired	(1,068)	(184)
Purchases of strategic and other related investments	(22)	(35)
Joint venture funding	—	(95)
Increase in restricted cash	(76)	—
Net cash used in investing activities	(820)	(603)
Cash flows from financing activities:		
Proceeds from the issuance of EMC's common stock	194	42
Proceeds from the issuance of VMware's common stock	88	68
EMC repurchase of EMC's common stock	(390)	(323)
EMC purchase of VMware's common stock	—	(125)
VMware repurchase of VMware's common stock	(169)	(182)
Excess tax benefits from stock-based compensation	29	33
Payment of long-term and short-term obligations	(1,665)	(5)
Dividend payment	(202)	—
Net cash used in financing activities	(2,115)	(492)
Effect of exchange rate changes on cash and cash equivalents	(3)	(28)
Net increase (decrease) in cash and cash equivalents	(1,600)	590
Cash and cash equivalents at beginning of period	7,891	4,714
Cash and cash equivalents at end of period	$6,291	$5,304
Reconciliation of net income to net cash provided by operating activities:		
Net income	$432	$615
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	442	391
Non-cash interest expense on debt	—	12
Non-cash restructuring and other special charges	5	7
Stock-based compensation expense	239	236
Provision for (recovery of) doubtful accounts	4	(8)
Deferred income taxes, net	(47)	(62)

Excess tax benefits from stock-based compensation	(29)	(33)
Other, net	17	6
Changes in assets and liabilities, net of acquisitions:		
Accounts and notes receivable	910	654
Inventories	(139)	(46)
Other assets	(13)	53
Accounts payable	(369)	(110)
Accrued expenses	(236)	(194)
Income taxes payable	(535)	(393)
Deferred revenue	650	582
Other liabilities	7	3
Net cash provided by operating activities	$1,338	$1,713

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

Table of Contents

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

For the three months ended March 31, 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	13	—	194	—	—	—	194
Tax benefit from stock options exercised	—	—	44	—	—	—	44
Restricted stock grants, cancellations and withholdings, net	1	—	(20)	—	—	—	(20)
Repurchase of common stock	(16)	—	(405)	—	—	—	(405)
Stock options issued in business acquisitions	—	—	24	—	—	—	24
Stock-based compensation	—	—	244	—	—	—	244
Cash dividends declared	—	—	—	(209)	—	—	(209)
Impact from equity transactions of non-controlling interests	—	—	(124)	—	—	17	(107)
Change in market value of investments	—	—	—	—	18	1	19
Change in market value of derivatives	—	—	—	—	(3)	—	(3)
Translation adjustment	—	—	—	—	(4)	—	(4)
Convertible debt conversions and warrant settlement	29	—	—	—	—	—	—
Net income	—	—	—	392	—	40	432
Balance, March 31, 2014	2,047	$ 20	$ 1,363	$ 21,297	$ (228)	$ 1,543	$ 23,995

For the three months ended March 31, 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	3	—	42	—	—	—	42
Tax benefit from stock options exercised	—	—	45	—	—	—	45
	3	—	(39)	—	—	—	(39)

Restricted stock grants, cancellations and withholdings, net							
Repurchase of common stock	(12)	—	(308)	—	—	—	(308)
EMC purchase of VMware stock	—	—	(95)	—	—	(20)	(115)
Stock-based compensation	—	—	228	—	—	—	228
Impact from equity transactions of non-controlling interests	—	—	(132)	—	—	(4)	(136)
Change in market value of investments	—	—	—	—	(3)	—	(3)
Change in market value of derivatives	—	—	—	—	1	—	1
Translation adjustment	—	—	—	—	(31)	—	(31)
Reclassification of convertible debt (to)/from mezzanine (Note 4)	—	—	16	—	—	—	16
Net income	—	—	—	580	—	35	615
Balance, March 31, 2013	2,101	$ 21	$ 3,448	$ 19,433	$ (241)	$ 1,178	$ 23,839

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

Table of Contents
EMC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation
Company
EMC Corporation ("EMC") and its subsidiaries develop, deliver and support the information technology ("IT") industry's broadest range of information infrastructure and virtual infrastructure technologies, solutions and services. EMC manages the Company as part of a federation of three 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. These benefits are primarily achieved though virtualization. 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 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-month periods ended March 31, 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 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. See Note 15 for further discussion of the segment reclassifications.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("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 for the periods beginning after December 15, 2014. We do not expect that the adoption of this new guidance will have a material impact on our consolidated financial position, results of operations or cash flows.

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 $1,438 million and $1,380 million as of March 31, 2014 and December 31, 2013, respectively. At March 31, 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.

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

	For the Three Months Ended	
	March 31, 2014	March 31, 2013
Net income attributable to EMC Corporation	$392	$580
Transfers (to) from the non-controlling interests in VMware, Inc.:		
Increase in EMC Corporation’s additional paid-in-capital for VMware’s equity issuances	47	36
Decrease in EMC Corporation’s additional paid-in-capital for VMware’s other equity activity	(171)	(168)
Net transfers (to) from non-controlling interests	(124)	(132)
Change from net income attributable to EMC Corporation and transfers from the non-controlling interests in VMware, Inc.	$268	$448

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 March 31, 2014 and December 31, 2013. At March 31, 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

During the three months ended March 31, 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.

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

Merger consideration totaling $300 million will be 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 $19 million was recognized from the date of acquisition through March 31, 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

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 months ended March 31, 2014 or 2013.

Intangible Assets

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

	March 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	$2,476	$(1,485)	$991
Patents	225	(106)	119
Software licenses	102	(91)	11
Trademarks and tradenames	212	(122)	90
Customer relationships and customer lists	1,463	(883)	580
Leasehold interest	147	(12)	135
Other	43	(28)	15
Total intangible assets, excluding goodwill	$4,668	$(2,727)	$1,941

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

	December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
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 three months ended March 31, 2014 consist of (table in millions):

	Three Months Ended March 31, 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	—	—	—	—	879	879
Finalization of purchase price allocations and other, net	—	(2)	—	—	—	(2)
Goodwill transferred in acquisition of Pivotal businesses	6	—	—	(6)	—	—
Balance, end of the period	$7,492	$1,485	$2,203	$171	$3,950	$15,301

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 first quarter of 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 March 31, 2014, we were in compliance with all debt covenants, which are customary in nature.

Our long-term debt as of March 31, 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

Table of Contents
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 the three months ended March 31, 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 the three months ended March 31, 2013.

The following table represents the key components of our interest expense on convertible debt for the three months ended March 31, 2013 (table in millions):

	March 31, 2013
Contractual interest expense on the coupon	$7
Amortization of the discount component recognized as interest expense	16
Total interest expense on the convertible debt	$23

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.

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 were deferred as they are expected to be realized over the life of the new debt issued under the related interest rate swap contracts.

At March 31, 2014, we had $176 million of accumulated realized losses related to the settled swaps in accumulated other comprehensive income which will be realized over the life of our ten year Notes. These losses will be reclassified from other comprehensive income and recognized on a straight-line basis in the consolidated income statements as interest expense beginning in the third quarter of 2014.

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 March 31, 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 March 31, 2014 and December 31, 2013. At March 31, 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 March 31, 2014 and December 31, 2013, auction rate securities were valued using a discounted cash flow model.

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

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

	March 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Aggregate Fair Value
U.S. government and agency obligations	$2,743	$4	$(2)	$2,745
U.S. corporate debt securities	2,352	5	(1)	2,356
High yield corporate debt securities	543	23	(1)	565
Municipal obligations	825	3	—	828
Auction rate securities	63	—	(4)	59
Foreign debt securities	2,294	6	(2)	2,298
Total fixed income securities	8,820	41	(10)	8,851
Publicly traded equity securities	71	52	(4)	119
Total	$8,891	$93	$(14)	$8,970

We held approximately $2,298 million in foreign debt securities at March 31, 2014. 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 AAA. None of the securities deemed sovereign debt are from Greece, Italy, Ireland, Portugal, Spain or Cyprus.

	December 31, 2013			
	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Aggregate Fair Value
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

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

The following tables represent our fair value hierarchy for our financial assets and liabilities measured at fair value as of March 31, 2014 and December 31, 2013 (tables in millions):

	March 31, 2014			
	Level 1	Level 2	Level 3	Total
Cash	$1,707	$—	$—	$1,707
Cash equivalents	4,264	320	—	4,584
U.S. government and agency obligations	1,796	949	—	2,745
U.S. corporate debt securities	—	2,356	—	2,356
High yield corporate debt securities	—	565	—	565
Municipal obligations	—	828	—	828
Auction rate securities	—	—	59	59
Foreign debt securities	—	2,298	—	2,298
Publicly traded equity securities	119	—	—	119
Total cash and investments	$7,886	$7,316	$59	$15,261
Other items:				
Strategic investments held at cost	$—	$—	$384	$384
Investment in joint venture	—	—	35	35
Long-term debt carried at discounted cost	—	(5,496)	—	(5,496)
Foreign exchange derivative assets	—	21	—	21
Foreign exchange derivative liabilities	—	(18)	—	(18)
Commodity derivative assets	—	1	—	1

	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 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 $7 million, have partial guarantees by the U.S. government as part of the Federal Family Education Loan Program ("FFELP") through the U.S. Department of Education. FFELP guarantees at least 95% of the loans which collateralize the auction rate securities. We believe the quality of the collateral underlying most of our auction rate securities will enable us to recover our

principal balance.
To determine the estimated fair value of our investment in auction rate securities, we used a discounted cash flow model using a five year time horizon. As of March 31, 2014, the coupon rates used ranged from 10% to 0% 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, 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 March 31, 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 months ended March 31, 2014 and 2013 (table in millions):

	For the Three Months Ended	
	March 31, 2014	March 31, 2013
Balance, beginning of the period	$60	$70
Calls at par value	—	(1)
Other-than-temporary impairment loss	—	(1)
(Increase) decrease in previously recognized unrealized losses included in other comprehensive income	(1)	—
Balance, end of the period	$59	$68

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 use 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 first quarter of 2014.

The following table provides a summary of changes in fair value of our LenovoEMC joint venture for the three months ended March 31, 2014 and 2013 (table in millions):

	For the Three Months Ended	
	March 31, 2014	March 31, 2013
Balance, beginning of the period	$35	$33
Realized gain included in other expense, net	—	—
Balance, end of period	$35	$33

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.

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

Investment Losses

Unrealized losses on investments at March 31, 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	$757	$(2)	$—	$—	$757	$(2)
U.S. corporate debt securities	700	(1)	—	—	700	(1)
High yield corporate debt securities	69	(1)	—	—	69	(1)
Auction rate securities	—	—	59	(4)	59	(4)
Foreign debt securities	573	(2)	—	—	573	(2)
Publicly traded equity securities	8	(3)	1	(1)	9	(4)
Total	$2,107	$(9)	$60	$(5)	$2,167	$(14)

For all of our securities for which the amortized cost basis was greater than the fair value at March 31, 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, third party guarantees and the time to maturity.

Contractual Maturities

The contractual maturities of fixed income securities held at March 31, 2014 are as follows (table in millions):

	March 31, 2014	
	Amortized Cost Basis	Aggregate Fair Value
Due within one year	$1,897	$1,900
Due after 1 year through 5 years	5,919	5,933
Due after 5 years through 10 years	557	574
Due after 10 years	447	444
Total	$8,820	$8,851

Short-term investments on the consolidated balance sheet include $64 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):

	March 31, 2014	December 31, 2013
Work-in-process	$699	$696
Finished goods	722	638
	$1,421	$1,334

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 March 31, 2014 were as follows (table in millions):

Year	Contractual Amounts Due Under Leases
Due within one year	$107
Due within two years	86
Due within three years	76
Thereafter	1
Total	270
Less: Amounts representing interest	4
Present value	266
Current portion (included in accounts and notes receivable)	105
Long-term portion (included in other assets, net)	$161

Subsequent to March 31, 2014, we sold $87 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 March 31, 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 three months ended March 31, 2014 and 2013 (table in millions):

	For the Three Months Ended	
	March 31, 2014	March 31, 2013
Balance, beginning of the period	$9	$17
Recoveries	(7)	(6)
Provisions	7	6
Balance, end of the period	$9	$17

Gross lease receivables totaled $270 million and $252 million as of March 31, 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.

8. Property, Plant and Equipment

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

	March 31, 2014	December 31, 2013
Furniture and fixtures	$239	$229
Equipment and software	6,182	5,973
Buildings and improvements	2,237	2,089
Land	133	132
Building construction in progress	141	215
	8,932	8,638
Accumulated depreciation	(5,364)	(5,160)
	$3,568	$3,478

18

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

Building construction in progress at March 31, 2014 includes $74 million for facilities not yet placed in service that we are holding for future use.

9. Joint Ventures

We make investments in joint ventures. For each joint venture investment, we consider the facts and circumstances in order to determine whether it qualifies for cost 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 March 31, 2014, we have contributed $1,146 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 63% for the three months ended March 31, 2014 and 2013. As of March 31, 2014, we have recorded net accumulated losses from VCE of $871 million since inception, of which $75 million and $69 million were recorded in the three months ending March 31, 2014 and 2013, respectively.

We recognized $170 million and $74 million in revenue from sales of product and services to VCE during the three months ended March 31, 2014 and 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 $58 million and $52 million as of March 31, 2014 and December 31, 2013, respectively, included in other current assets in the consolidated balance sheets.

10. Accrued Expenses

Accrued expenses consist of (table in millions):

	March 31, 2014	December 31, 2013
Salaries and benefits	$897	$1,078
Product warranties	274	289
Dividends payable (see Note 12)	211	205
Partner rebates	166	214
Restructuring, current (See Note 13)	154	84
Derivatives	17	23

Other	949	890
	$2,668	$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 months ended March 31, 2014 and 2013 (table in millions):

	March 31, 2014	March 31, 2013
Balance, beginning of the period	$289	$278
Provision	42	45
Amounts charged to the accrual	(57)	(40)
Balance, end of the period	$274	$283

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 24.3% and 11.0% for the three months ended March 31, 2014 and 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 months ended March 31, 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. 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. We do not believe that any recent or currently expected developments in non-U.S. tax jurisdictions are reasonably likely to have a material impact on our effective income rate. For the three months ended March 31, 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 and 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 three months ended March 31, 2013 included the estimated federal tax credit for increasing research activities for the full year 2012 as well as the three months ended March 31, 2013, which reduced our effective tax rate for the quarter.

Our effective income tax rate increased in the three months ended March 31, 2014 from the three months ended March 31, 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 10.9% for the three months ended March 31, 2013. Our effective income tax rate for the three months ended March 31, 2014 does 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	
	March 31, 2014	March 31, 2013
Numerator:		
Net income attributable to EMC Corporation	$392	$580
Incremental dilution from VMware	(2)	(1)
Net income – dilution attributable to EMC Corporation	$390	$579
Denominator:		
Weighted average shares, basic	2,029	2,102
Weighted common stock equivalents	26	30
Assumed conversion of the 2013 Notes and associated warrants	21	57
Weighted average shares, diluted	2,076	2,189

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 months ended March 31, 2013 as the average stock price exceeded the exercise price, and during the three months ended March 31, 2014 for the period the warrants were outstanding.

Restricted stock awards, restricted stock units and options to acquire shares of our common stock in the amount of 6 million and 3 million for the three months ended March 31, 2014 and 2013, respectively, were excluded from the calculation of diluted earnings per share because they were antidilutive. The incremental dilution from VMware represents the impact of VMware's dilutive securities on EMC's consolidated diluted net income per share and is calculated by multiplying the difference between VMware's basic and diluted earnings per share by the number of VMware shares owned by EMC.

Repurchase of Common Stock

We utilize both authorized and unissued shares (including repurchased shares) for all issuances under our equity plans. Our Board of Directors authorized the repurchase of 250 million shares of our common stock in February 2013. For the three months ended March 31, 2014, we spent $405 million to repurchase 16 million shares of our common stock. Of the 250 million shares authorized for repurchase, we have repurchased 110 million shares at a total cost of $2.8 billion, leaving a remaining balance of 140 million shares authorized for future repurchases. We plan to spend up to $6.0 billion in the repurchase of shares during the three years ending December 31, 2015. This includes $3.0 billion spent during the year ended December 31, 2013 and $2.0 billion and $1.0 billion to be spent during the years ending December 31, 2014 and 2015, respectively.

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 also declared a

cash dividend at this new rate which will be paid on July 23, 2014 to shareholders of record as of the close of business on July 1, 2014.
During the three months ended March 31, 2014, EMC paid a cash dividend of $202 million. On April 23, 2014, EMC paid a cash dividend of $205 million to shareholders of record as of the close of business on April 1, 2014, which was declared on February 6, 2014.

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, 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)	$		