

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-9853

EMC CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts

(State or other jurisdiction of  
incorporation or organization)

04-2680009

(I.R.S. Employer  
Identification Number)

176 South Street

Hopkinton, Massachusetts

(Address of principal executive offices)

(508) 435-1000

(Registrant's telephone number, including area code)

01748

(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

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## FACTORS THAT MAY AFFECT FUTURE RESULTS

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

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

	September 30, 2014	December 31, 2013
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,055	\$ 7,891
Short-term investments	2,092	2,773
Accounts and notes receivable, less allowance for doubtful accounts of \$68 and \$62	3,185	3,861
Inventories	1,390	1,334
Deferred income taxes	970	912
Other current assets	727	507
Total current assets	14,419	17,278
Long-term investments	7,233	6,924
Property, plant and equipment, net	3,629	3,478
Intangible assets, net	2,069	1,780
Goodwill	15,859	14,424
Other assets, net	1,819	1,965
Total assets	\$ 45,028	\$ 45,849
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,109	\$ 1,434
Accrued expenses	2,884	2,783
Notes converted and payable (See Note 4)	—	1,665
Income taxes payable	448	639
Deferred revenue	5,694	5,278
Total current liabilities	10,135	11,799
Income taxes payable	289	296
Deferred revenue	4,072	3,701
Deferred income taxes	363	421
Long-term debt (See Note 4)	5,494	5,494
Other liabilities	384	352
Total liabilities	20,737	22,063
Commitments and contingencies (See Note 14)		
Shareholders' equity:		
Preferred stock, par value \$0.01; authorized 25 shares; none outstanding	—	—
Common stock, par value \$0.01; authorized 6,000 shares; issued and outstanding 2,035 and 2,020 shares	20	20
Additional paid-in capital	850	1,406
Retained earnings	21,997	21,114
Accumulated other comprehensive loss, net	(198	) (239
Total EMC Corporation's shareholders' equity	22,669	22,301

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

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

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

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

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

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

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



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

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

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

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

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

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

For the nine months ended September 30, 2014:

	Common Stock		Additional	Retained	Accumulated	Non-controlling	Shareholders'
	Shares	Par Value	Paid-in Capital	Earnings	Other Comprehensive Loss	Interests	Equity
Balance, January 1, 2014	2,020	\$20	\$1,406	\$21,114	\$ (239 )	\$ 1,485	\$ 23,786
Stock issued through stock option and stock purchase plans	29	—	445	—	—	—	445
Tax benefit from stock options exercised	—	—	80	—	—	—	80
Restricted stock grants, cancellations and withholdings, net	9	—	(101 )	—	—	—	(101 )
Repurchase of common stock	(52 )	—	(1,374 )	—	—	—	(1,374 )
Stock options issued in business acquisitions	—	—	33	—	—	—	33
Stock-based compensation	—	—	787	—	—	—	787
Cash dividends declared	—	—	—	(685 )	—	—	(685 )
Impact from equity transactions of non-controlling interests	—	—	(426 )	—	—	24	(402 )
Actuarial gain on pension plan	—	—	—	—	1	—	1
Change in market value of investments	—	—	—	—	88	—	88
Change in market value of derivatives	—	—	—	—	9	—	9
Translation adjustment	—	—	—	—	(57 )	—	