EMC CORP
Form 10-Q
November 09, 2015
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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 September 30, 2015

OR

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

For the transition period from to

Commission File Number 1-9853

EMC CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts	04-2680009
(State or other jurisdiction of incorporation or organization)	(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 September 30, 2015 was 1,938,837,339.

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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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PART I
FINANCIAL INFORMATION

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

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,324	$ 6,343
Short-term investments	2,318	1,978
Accounts and notes receivable, less allowance for doubtful accounts of $87 and $72	3,134	4,413
Inventories	1,224	1,276
Deferred income taxes	1,088	1,070
Other current assets	649	653
Total current assets	13,737	15,733
Long-term investments	6,642	6,334
Property, plant and equipment, net	3,791	3,766
Intangible assets, net	2,239	2,125
Goodwill	17,083	16,134
Other assets, net	1,853	1,767
Total assets	$ 45,345	$ 45,859
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,115	$ 1,696
Accrued expenses	2,831	3,141
Income taxes payable	208	852
Short-term debt (See Note 4)	1,970	—
Deferred revenue	6,187	6,021
Total current liabilities	12,311	11,710
Income taxes payable	380	306
Deferred revenue	4,436	4,144
Deferred income taxes	317	274
Long-term debt (See Note 4)	5,474	5,469
Other liabilities	472	431
Total liabilities	23,390	22,334
Commitments and contingencies (See Note 13)		
Shareholders' equity:		
Preferred stock, par value $0.01; authorized 25 shares; none outstanding	—	—
Common stock, par value $0.01; authorized 6,000 shares; issued and outstanding 1,939 and 1,985 shares	19	20
Additional paid-in capital	—	—
Retained earnings	20,958	22,242
Accumulated other comprehensive loss, net	(533)	(366)
Total EMC Corporation's shareholders' equity	20,444	21,896

Non-controlling interests	1,511	1,629
Total shareholders' equity	21,955	23,525
Total liabilities and shareholders' equity	$ 45,345	$ 45,859

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

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Revenues:				
Product sales	$3,269	$ 3,400	$9,399	$ 9,728
Services	2,810	2,632	8,290	7,663
	6,079	6,032	17,689	17,391
Costs and expenses:				
Cost of product sales	1,379	1,400	4,141	4,068
Cost of services	995	889	2,917	2,579
Research and development	802	767	2,372	2,239
Selling, general and administrative	2,145	1,990	6,285	5,852
Restructuring and acquisition-related charges	68	39	226	187
Operating income	690	947	1,748	2,466
Non-operating income (expense):				
Investment income	25	29	76	100
Interest expense	(41)	(40)	(121)	(108)
Other income (expense), net	22	(103)	56	(245)
Total non-operating income (expense)	6	(114)	11	(253)
Income before provision for income taxes	696	833	1,759	2,213
Income tax provision	168	206	420	532
Net income	528	627	1,339	1,681
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(48)	(40)	(120)	(113)
Net income attributable to EMC Corporation	$480	$ 587	$1,219	$ 1,568
Net income per weighted average share, basic attributable to EMC Corporation common shareholders	$0.25	$ 0.29	$0.63	$ 0.77
Net income per weighted average share, diluted attributable to EMC Corporation common shareholders	$0.25	$ 0.28	$0.62	$ 0.76
Weighted average shares, basic	1,934	2,032	1,945	2,033
Weighted average shares, diluted	1,948	2,057	1,963	2,065
Cash dividends declared per common share	$0.12	$ 0.12	$0.34	$ 0.33

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, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Net income	$528	$ 627	$1,339	$ 1,681
Other comprehensive income (loss), net of taxes (benefits):				
Foreign currency translation adjustments	(52)	(61)	(137)	(57)
Changes in market value of investments:				
Changes in unrealized gains (losses), net of taxes (benefits) of $(20), $16, $(7) and $65	(31)	24	(10)	107
Reclassification adjustment for net losses (gains) realized in net income, net of benefits (taxes) of $(3), $(5), $(16) and $(11)	(5)	(8)	(26)	(19)
Net change in market value of investments	(36)	16	(36)	88
Changes in market value of derivatives:				
Changes in unrealized gains (losses), net of taxes (benefits) of $1, $3, $2 and $3	2	10	11	11
Reclassification adjustment for net losses (gains) included in net income, net of benefits (taxes) of $2, $0, $4 and $0	3	1	(8)	(2)
Net change in the market value of derivatives	5	11	3	9
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)	(83)	(33)	(170)	41
Comprehensive income	445	594	1,169	1,722
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(48)	(40)	(120)	(113)
Less: Other comprehensive (income) loss attributable to the non-controlling interest in VMware, Inc.	6	1	3	—
Comprehensive income attributable to EMC Corporation	$403	$ 555	$1,052	$ 1,609

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, 2015	September 30, 2014
Cash flows from operating activities:		
Cash received from customers	$19,375	$19,005
Cash paid to suppliers and employees	(14,894)	(13,868)
Dividends and interest received	98	119
Interest paid	(68)	(67)
Income taxes paid	(995)	(897)
Net cash provided by operating activities	3,516	4,292
Cash flows from investing activities:		
Additions to property, plant and equipment	(671)	(693)
Capitalized software development costs	(411)	(382)
Purchases of short- and long-term available-for-sale securities	(5,553)	(7,989)
Sales of short- and long-term available-for-sale securities	3,389	6,396
Maturities of short- and long-term available-for-sale securities	1,465	2,135
Business acquisitions, net of cash acquired	(1,304)	(1,771)
Purchases of strategic and other related investments	(177)	(101)
Sales of strategic and other related investments	135	38
Joint venture funding	—	(163)
Decrease (increase) in restricted cash	77	(76)
Net cash used in investing activities	(3,050)	(2,606)
Cash flows from financing activities:		
Proceeds from the issuance of EMC's common stock	293	445
Proceeds from the issuance of VMware's common stock	123	158
EMC repurchase of EMC's common stock	(2,063)	(1,374)
VMware repurchase of VMware's common stock	(1,050)	(450)
Excess tax benefits from stock-based compensation	62	85
Payment of long-term obligations	—	(1,665)
Net proceeds from the issuance of short-term obligations	1,968	—
Dividend payment	(683)	(644)
Contributions from non-controlling interests	4	7
Net cash used in financing activities	(1,346)	(3,438)
Effect of exchange rate changes on cash and cash equivalents	(139)	(84)
Net decrease in cash and cash equivalents	(1,019)	(1,836)
Cash and cash equivalents at beginning of period	6,343	7,891
Cash and cash equivalents at end of period	$5,324	$6,055
Reconciliation of net income to net cash provided by operating activities:		
Net income	$1,339	$1,681
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,423	1,370
Non-cash restructuring and other special charges	14	14
Stock-based compensation expense	785	770
Provision for doubtful accounts	50	11

Deferred income taxes, net	(39)	(246)
Excess tax benefits from stock-based compensation	(62)	(85)
Gain on previously held interests in strategic investments and joint venture	—	(45)
Impairment of strategic investment	—	33
Other, net	22	20
Changes in assets and liabilities, net of acquisitions:		
Accounts and notes receivable	1,201	756
Inventories	(99)	(252)
Other assets	(92)	169
Accounts payable	(537)	(304)
Accrued expenses	(434)	(234)
Income taxes payable	(535)	(122)
Deferred revenue	450	730
Other liabilities	30	26
Net cash provided by operating activities	$3,516	$4,292

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, 2015:

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Shareholders' Equity
	Shares	Par Value					
Balance, January 1, 2015	1,985	$20	$—	$22,242	$ (366)	$ 1,629	$ 23,525
Stock issued through stock option and stock purchase plans	18	—	293	—	—	—	293
Tax benefit from stock options exercised	—	—	33	—	—	—	33
Restricted stock grants, cancellations and withholdings, net	12	—	(137)	—	—	—	(137)
Repurchase of common stock	(76)	(1)	(209)	(1,823)	—	—	(2,033)
Stock options issued in business acquisitions	—	—	1	—	—	—	1
Stock-based compensation	—	—	845	—	—	—	845
Cash dividends declared	—	—	—	(680)	—	—	(680)
Impact from equity transactions of non-controlling interests	—	—	(826)	—	—	(235)	(1,061)
Change in market value of investments	—	—	—	—	(34)	(2)	(36)
Change in market value of derivatives	—	—	—	—	4	(1)	3
Translation adjustment	—	—	—	—	(137)	—	(137)
Net income	—	—	—	1,219	—	120	1,339
Balance, September 30, 2015	1,939	$19	$—	$20,958	$ (533)	$ 1,511	$ 21,955

For the nine months ended September 30, 2014:

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-controlling Interests	Shareholders' Equity
	Shares	Par Value					
Balance, January 1, 2014	2,020	$20	$1,406	$21,114	$ (239)	$ 1,485	$ 23,786
Stock issued through stock option and stock purchase plans	29	—	445	—	—	—	445
Tax benefit from stock options exercised	—	—	80	—	—	—	80
Restricted stock grants, cancellations and	9	—	(101)	—	—	—	(101)

withholdings, net							
Repurchase of common stock	(52)	—	(1,374)	—	—	—	(1,374)
Stock options issued in business acquisitions	—	—	33	—	—	—	33
Stock-based compensation	—	—	787	—	—	—	787
Cash dividends declared	—	—	—	(685)	—	—	(685)
Impact from equity transactions of non-controlling interests	—	—	(426)	—	—	24	(402)
Actuarial gain on pension plan	—	—	—	—	1	—	1
Change in market value of investments	—	—	—	—	88	—	88
Change in market value of derivatives	—	—	—	—	9	—	9
Translation adjustment	—	—	—	—	(57)	—	(57)
Convertible debt conversions and warrant settlement	29	—	—	—	—	—	—
Net income	—	—	—	1,568	—	113	1,681
Balance, September 30, 2014	2,035	$20	$850	$21,997	$(198)	$ 1,622	$24,291

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

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EMC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Company

EMC Corporation ("EMC") and its subsidiaries develop, deliver and support the information technology ("IT") industry's broadest range of information infrastructure and virtual infrastructure technologies, solutions and services. EMC manages the Company as part of a federation of businesses: EMC Information Infrastructure, VMware Virtual Infrastructure, 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 the leader in virtualization infrastructure solutions utilized by organizations to help them transform the way they build, deliver and consume IT resources. VMware's virtualization infrastructure solutions, which include a suite of products and services designed to deliver a software-defined data center, run on industry-standard desktop computers and servers and support a wide range of operating system and application environments, as well as networking and storage infrastructures.

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

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 ("Parent"), Dell Inc., a Delaware corporation, and Universal Acquisition Co., a Delaware corporation and direct wholly owned subsidiary of Parent ("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 Parent.

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 Parent 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 the EMC, reflecting approximately 53% of the total economic interest in the outstanding shares of VMware. Upon completion of the transaction, Parent 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 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.

Under the terms of the Merger Agreement, EMC may solicit alternative acquisition proposals from third parties until 11:59 p.m. on December 11, 2015. The Merger Agreement contains specified termination rights for both Parent and EMC, including that, in general, either party may terminate if the Merger is not consummated on or before December 16, 2016. If EMC terminates the Merger Agreement, we are required to pay Parent a termination fee of $2.5 billion (or, if EMC terminates for a superior proposal prior to December 12, 2015, the termination fee payable by EMC to Parent will be $2 billion). If Parent 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 expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, 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 Parent in connection with the registration of shares of Class V Common Stock issuable in connection with the Merger.

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EMC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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 Parent, 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 Parent 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, we have asserted our 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, we 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 and nine months ended September 30, 2015.

General

The accompanying interim consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. These consolidated financial statements include the accounts of EMC, its wholly owned subsidiaries, as well as VMware and Pivotal, companies majority-owned by EMC. All intercompany transactions have been eliminated. Certain information and footnote disclosures normally included in our annual consolidated financial statements have been condensed or omitted. Accordingly, these interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2014 which are contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2015.

The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for any future period or the entire fiscal year. The interim consolidated financial statements, in the opinion of management, reflect all adjustments necessary to fairly state the results as of and for the three- and nine-month periods ended September 30, 2015 and 2014.

Net Income Per Share

Basic net income per weighted average share has been computed using the weighted average number of shares of common stock outstanding during the period. Diluted net income per weighted average share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period. Common equivalent shares consist of stock options, restricted stock and restricted stock units, and in the three and nine months ended September 30, 2014, the shares issuable under our $1.725 billion 1.75% convertible senior notes due 2013 (the "2013 Notes") and the associated warrants. Additionally, for purposes of calculating diluted net income per weighted average share, net income is adjusted for the difference between VMware's reported diluted and basic net income per weighted average share, if any, multiplied by the number of shares of VMware held by EMC.

Investments in Joint Ventures

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

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

Prior to the acquisition of the controlling interest in VCE, we considered VCE a variable interest entity and accounted for the investment under the equity method with our portion of the gains and losses recognized in other expense, net in the consolidated income statements for the majority of 2014. Our consolidated share of VCE's losses, based upon our portion of the overall funding, was approximately 65% and 64% for the three and nine months ended September 30, 2014, respectively. During the three and nine months ended September 30, 2014, we recorded $101 million and $261 million, respectively, in net losses from VCE and $207 million and $550 million, respectively, in revenue from sales of product and services to VCE.

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EMC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Reclassifications

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

Recent Accounting Pronouncements

In September 2015, the FASB issued updated guidance related to simplifying the accounting for measurement period adjustments related to business combinations. The amended guidance eliminates the requirement to retrospectively account for adjustments made during the measurement period. The standard is effective beginning January 1, 2016, with early adoption permitted. We do not expect it to have a material impact on our consolidated financial position, results of operations or cash flows.

In April 2015, the FASB issued guidance to customers about whether a cloud computing arrangement includes software and how to account for that software license. The new guidance does not change the accounting for a customer's accounting for service contracts. The standard is effective beginning January 1, 2017, with early adoption permitted, and may be applied prospectively or retrospectively. We do not expect it to have a material impact on our consolidated financial position, results of operations or cash flows.

In May 2014, the FASB issued a standard on revenue recognition providing a single, comprehensive revenue recognition model for all contracts with customers. The revenue standard is based on the principle that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard, 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 $1,406 million and $1,524 million as of September 30, 2015 and December 31, 2014, respectively. At September 30, 2015, EMC held approximately 97% of the combined voting power of VMware's outstanding common stock and approximately 81% of the economic interest in VMware.

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

	For the Nine Months Ended	
	September 30, 2015	September 30, 2014
Net income attributable to EMC Corporation	$1,219	$1,568
Transfers (to) from the non-controlling interests in VMware, Inc.:		
Increase in EMC Corporation's additional paid-in-capital for VMware's equity issuances	60	84
Decrease in EMC Corporation's additional paid-in-capital for VMware's other equity activity	(886)	(510)
Net transfers (to) from non-controlling interest	(826)	(426)

Change from net income attributable to EMC Corporation and transfers from the non-controlling interest in VMware, Inc.	$393	$1,142

The non-controlling interests' share of equity in Pivotal is reflected as a component of the non-controlling interests in the accompanying consolidated balance sheets as $105 million at both September 30, 2015 and December 31, 2014. At September 30, 2015, EMC consolidated held approximately 84% of the economic interest in Pivotal. General Electric Company's ("GE") interest in Pivotal is in the form of a preferred equity instrument. Consequently, there is no net income attributable to non-controlling interest related to Pivotal on the consolidated income statements. Additionally, due to the terms of the preferred instrument, GE's non-controlling interest on the consolidated balance sheets is generally not impacted by Pivotal's equity related activity. The preferred equity instrument is convertible into common shares at GE's election at any time.

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3. Business Combinations, Intangibles and Goodwill

Acquisition of Virtustream

On July 9, 2015, EMC acquired all of the outstanding capital stock of Virtustream Group Holdings, Inc. ("Virtustream"), a cloud software and services company that delivers mission-critical enterprise applications in the cloud. This acquisition represents a key element of EMC's strategy to help customers move applications to cloud-based IT environments. The consideration paid for Virtustream was $1,219 million, net of cash acquired.

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):

Current assets	$18
Property, plant and equipment, net	14
Intangible assets:	
Purchased technology (weighted-average useful life of 8.6 years)	302
Customer relationships and customer lists (weighted-average useful life of 12.3 years)	50
Trademarks and tradenames (weighted-average useful life of 7.6 years)	27
Total intangible assets, net, excluding goodwill	379
Goodwill	891
Other assets, net	12
Total assets acquired	1,314
Current liabilities	(27)
Deferred income taxes	(61)
Other liabilities	(7)
Total net liabilities assumed	(95)
Fair value of assets acquired and net liabilities assumed	$1,219

The total weighted-average amortization period for the intangible assets is 9.0 years. The intangible assets are being amortized over the pattern in which the economic benefits of the intangible assets are being utilized, which in general reflects the cash flows generated from such assets. Goodwill is calculated as the excess of the consideration over the fair value of the net assets, including intangible assets, recognized and is primarily related to expected synergies from the transaction, including complementary products that will enhance our overall product portfolio, which we believe will result in incremental revenue and profitability. The goodwill associated with this acquisition is currently reported within our Information Storage segment. None of the goodwill is deductible for 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 nine months ended September 30, 2015 or 2014.

Other Acquisitions

During the nine months ended September 30, 2015, EMC acquired five businesses, excluding Virtustream, which were not material either individually or in the aggregate to our September 30, 2015 results. Complementing the Information Storage segment, we acquired all of the outstanding capital stock of Renasar Technologies, Inc., a provider of extensible physical middleware, CloudLink, a provider of cloud data security software and Graphite Systems, a developer of server-side flash storage. Complementing our Pivotal segment, we acquired all of the

outstanding capital stock of Quickstep Technologies, LLC, a query execution technology developer. VMware acquired all of the outstanding capital stock of Immidio B.V.

The aggregate consideration for these five acquisitions was $89 million which represents cash consideration, net of cash acquired in the third quarter of 2015. The consideration was allocated to the fair value of the assets acquired and liabilities assumed based on estimated fair values as of the respective acquisition dates. The aggregate allocation to goodwill, intangibles, and net liabilities was approximately $64 million, $33 million and $8 million, respectively.

The intangible assets acquired were primarily comprised of purchased developed technology which have a weighted-average amortization period of 3.6 years. Most of our intangible assets are being amortized based upon the pattern in which the economic

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benefits of the intangible assets are being utilized; the remainder are amortized on a straight-line basis. Goodwill is calculated as the excess of the consideration over the fair value of the net assets, including intangible assets, and is primarily related to expected synergies from the transaction. The goodwill is not deductible for U.S. federal income tax purposes. The results of these acquisitions have been included in the consolidated financial statements from the date of purchase. Pro forma results of operations have not been presented as the results of the acquired companies were not material to our consolidated results of operations for the three and nine months ended September 30, 2015 or 2014.

Intangible Assets

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

	September 30, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	$3,266	$(1,845)	$1,421
Patents	225	(128)	97
Software licenses	111	(94)	17
Trademarks and tradenames	253	(151)	102
Customer relationships and customer lists	1,523	(1,060)	463
Leasehold interest	152	(19)	133
Other	46	(40)	6
Total intangible assets, excluding goodwill	$5,576	$(3,337)	$2,239

	December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	$2,935	$(1,668)	$1,267
Patents	225	(117)	108
Software licenses	108	(93)	15
Trademarks and tradenames	226	(136)	90
Customer relationships and customer lists	1,473	(974)	499
Leasehold interest	152	(16)	136
Other	44	(34)	10
Total intangible assets, excluding goodwill	$5,163	$(3,038)	$2,125

Goodwill

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

	Nine Months Ended September 30, 2015					
	Information Storage	Enterprise Content Division	RSA Information Security	Pivotal	VMware Virtual Infrastructure	Total
Balance, beginning of the period	$8,266	$1,486	$2,203	$171	$4,008	$16,134
Goodwill resulting from acquisitions	935	—	—	3	17	955
	2	(8)	—	—	—	(6)

Finalization of purchase price allocations and other, net						
Balance, end of the period	$9,203	$1,478	$2,203	$174	$4,025	$17,083

4. Debt

Short-Term Debt

On February 27, 2015, we entered into a credit agreement with the lenders named therein, Citibank, N.A., as Administrative Agent, Bank of America, N.A. and JPMorgan Chase Bank, N.A., as Syndication Agents, and Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities LLC, as Joint Lead Arrangers and Joint Bookrunners (the

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"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 September 30, 2015, we were in compliance with customary required covenants and we had not borrowed any funds under the credit facility. At November 6, 2015, we had $600 million borrowed under the credit facility.

On March 23, 2015, we established a short-term debt financing program whereby we may issue short-term unsecured commercial paper notes ("Commercial Paper"). Amounts available under the program may be borrowed, repaid and re-borrowed from time to time, with the aggregate face or principal amount of the notes outstanding at any time not to exceed $2.5 billion. The Commercial Paper will have maturities of up to 397 days from the date of issue. The net proceeds from the issuance of the Commercial Paper are expected to be used for general corporate purposes. As of September 30, 2015, we were in compliance with customary required covenants. At September 30, 2015, we had $1,970 million of Commercial Paper outstanding, with a weighted-average interest rate of 0.24% and maturities ranging from 34 days to 80 days at the time of issuance. Commercial Paper outstanding is presented in short-term debt in the consolidated balance sheets, and the issuances and proceeds of the Commercial Paper are presented on a net basis in the consolidated statement of cash flows due to their short term nature. At November 6, 2015, we had $1,565 million of Commercial Paper outstanding.

Long-Term Debt

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

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

Senior Notes	Issued at Discount to Par		Carrying Value
$2.5 billion 1.875% Notes due 2018	99.943	%	$2,499
$2.0 billion 2.650% Notes due 2020	99.760	%	1,996
$1.0 billion 3.375% Notes due 2023	99.925	%	1,000
			$5,495
Debt issuance costs			(21)
Net long-term debt			$5,474

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

Convertible Debt

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

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With respect to the conversion value in excess of the principal amount of the 2013 Notes converted, we elected to settle the excess with shares of our common stock based on a daily conversion value, determined in accordance with the indenture, calculated on a proportionate basis for each day of the relevant 20-day observation period. The actual conversion rate for the 2013 Notes was 62.6978 shares of our common stock per one thousand dollars of principal amount of 2013 Notes, which represents a 26.5% conversion premium from the date the 2013 Notes were issued and is equivalent to a conversion price of approximately $15.95 per share of our common stock.

In connection with the issuance of the 2013 Notes, we entered into separate convertible note hedge transactions with respect to our common stock (the “Purchased Options”). The Purchased Options allowed us to receive shares of our common stock and/or cash related to the excess conversion value that we would pay to the holders of the 2013 Notes upon conversion. We exercised 108 million of the purchased options in conjunction with the planned settlements of the 2013 Notes and received 35 million shares of net settlement on January 7, 2014, representing the excess conversion value of the options.

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

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

Interest Rate Swap Contracts

In 2010, EMC entered into interest rate swap contracts with an aggregate notional amount of approximately $900 million. These swaps were designated as cash flow hedges of the semi-annual interest payments of the forecasted issuance of debt in 2011. In 2012, the interest rate swap contracts were settled and accumulated losses of $176 million were deferred as they were expected to be realized over the life of the new debt issued under the related interest rate swap contracts. The accumulated realized losses related to the settled swaps included in accumulated other comprehensive income are being realized over the remaining life of the ten year Notes. During the three and nine months ended September 30, 2015, $6 million and $17 million, respectively, in losses were reclassified from other comprehensive income and recognized as interest expense in the consolidated income statements.

5. Fair Value of Financial Assets and Liabilities

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

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

Most of our fixed income securities are classified as Level 2, with the exception of some of our U.S. government and agency obligations and our investments in publicly traded equity securities, which are classified as Level 1, and all of our auction rate securities, which are classified as Level 3. In addition, our strategic investments held at cost are

classified as Level 3. At September 30, 2015, the vast majority of our Level 2 securities were priced by pricing vendors. These pricing vendors utilize the most recent observable market information in pricing these securities or, if specific prices are not available for these securities, use other observable inputs like market transactions involving identical or comparable securities. In the event observable inputs are not available, we assess other factors to determine the security's market value, including broker quotes or model valuations. Each month, we perform independent price verifications of all of our fixed income holdings. In the event a price fails a pre-established tolerance check, it is researched so that we can assess the cause of the variance to determine what we believe is the appropriate fair market value.

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

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

	September 30, 2015			
	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Aggregate Fair Value
U.S. government and agency obligations	$2,376	$5	$(1)	$2,380
U.S. corporate debt securities	2,549	4	(5)	2,548
High yield corporate debt securities	370	2	(22)	350
Asset-backed securities	30	—	—	30
Municipal obligations	850	2	—	852
Auction rate securities	27	—	(2)	25
Foreign debt securities	2,559	3	(8)	2,554
Total fixed income securities	8,761	16	(38)	8,739
Publicly traded equity securities	178	52	(9)	221
Total	$8,939	$68	$(47)	$8,960

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

We held approximately $2,554 million in foreign debt securities at September 30, 2015. 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.

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

	September 30, 2015			
	Level 1	Level 2	Level 3	Total
Cash	$1,643	$—	$—	$1,643
Cash equivalents	3,264	417	—	3,681
U.S. government and agency obligations	1,404	976	—	2,380
U.S. corporate debt securities	—	2,548	—	2,548
High yield corporate debt securities	—	350	—	350
Asset-backed securities	—	30	—	30
Municipal obligations	—	852	—	852
Auction rate securities	—	—	25	25
Foreign debt securities	—	2,554	—	2,554
Publicly traded equity securities	221	—	—	221
Total cash and investments	$6,532	$7,727	$25	$14,284
Other items:				
Strategic investments held at cost	$—	$—	$382	$382
Investment in joint venture	—	—	38	38
Long-term debt carried at discounted cost	—	(5,514)	—	(5,514)
Foreign exchange derivative assets	—	49	—	49
Foreign exchange derivative liabilities	—	(47)	—	(47)
Commodity derivative liabilities	—	(4)	—	(4)

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

Our auction rate securities are predominantly rated investment grade and are primarily collateralized by student loans. The underlying loans of all but one of our auction rate securities, with a market value of $6 million, have partial

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

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To determine the estimated fair value of our investment in auction rate securities, we use a discounted cash flow model using a five year time horizon. As of September 30, 2015, the coupon rates used ranged from 0% to 2% and the discount rate was 1%, which rate represents the rate at which similar FFELP backed securities with a five year time horizon outside of the auction rate securities market were trading at September 30, 2015. The assumptions used in preparing the discounted cash flow model include an incremental discount rate for the lack of liquidity in the market ("liquidity discount margin") for an estimated period of time. The discount rate we selected was based on AA-rated banks as the majority of our portfolio is invested in student loans where EMC acts as a financier to these lenders. The liquidity discount margin represents an estimate of the additional return an investor would require for the lack of liquidity of these securities over an estimated five year holding period. The rate used for the discount margin was 1% at both September 30, 2015 and December 31, 2014 due to the narrowing of credit spreads on AA-rated banks during 2014 and into 2015.

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

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

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

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

Investment Losses

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

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government and agency obligations	$321	$(1)	$—	$—	$321	$(1)
U.S. corporate debt securities	1,103	(5)	—	—	1,103	(5)
High yield corporate debt securities	239	(17)	30	(5)	269	(22)
Auction rate securities	—	—	25	(2)	25	(2)
Foreign debt securities	1,220	(8)	—	—	1,220	(8)
Publicly traded equity securities	2	(1)	19	(8)	21	(9)
Total	$2,885	$(32)	$74	$(15)	$2,959	$(47)

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For all of our securities for which the amortized cost basis was greater than the fair value at September 30, 2015, we have concluded that currently we neither plan to sell the security nor is it more likely than not that we would be required to sell the security before 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 September 30, 2015 are as follows (table in millions):

	September 30, 2015	
	Amortized Cost Basis	Aggregate Fair Value
Due within one year	$2,302	$2,303
Due after 1 year through 5 years	5,618	5,617
Due after 5 years through 10 years	523	503
Due after 10 years	318	316
Total	$8,761	$8,739

Short-term investments on the consolidated balance sheet include $15 million in variable rate notes which have contractual maturities in 2015, and are not classified within investments due within one year above.

6. Inventories

Inventories consist of (table in millions):

	September 30, 2015	December 31, 2014
Work-in-process	$580	$627
Finished goods	644	649
	$1,224	$1,276

7. Accounts and Notes Receivable and Allowance for Credit Losses

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

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

Year	Contractual Amounts Due Under Leases
Due within one year	$65
Due within two years	45
Due within three years	31
Thereafter	1
Total	142
Less: Amounts representing interest	5
Present value	137
Current portion (included in accounts and notes receivable)	62
Long-term portion (included in other assets, net)	$75

Subsequent to September 30, 2015, we sold $23 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

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experience, the age of the receivable and current market and economic conditions. Uncollectible amounts are charged against the allowance account.

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

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

Gross lease receivables totaled $142 million and $233 million as of September 30, 2015 and December 31, 2014, respectively, before the allowance. The components of these balances were individually evaluated for impairment and included in our allowance determination as necessary.

8. Property, Plant and Equipment

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

	September 30, 2015	December 31, 2014
Furniture and fixtures	$280	$255
Equipment and software	7,305	6,684
Buildings and improvements	2,357	2,308
Land	170	162
Building construction in progress	68	134
	10,180	9,543
Accumulated depreciation	(6,389)	(5,777)
	$3,791	$3,766

Building construction in progress at September 30, 2015 includes $39 million for facilities not yet placed in service that we are holding for future use.

9. Accrued Expenses

Accrued expenses consist of (table in millions):

	September 30, 2015	December 31, 2014
Salaries and benefits	$1,075	$1,251
Product warranties	180	207
Dividends payable (see Note 11)	232	237
Partner rebates	204	235
Restructuring, current (See Note 12)	162	123
Derivatives	51	75
Other	927	1,013
	$2,831	$3,141

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Balance, beginning of the period	$189	$ 254	$207	$ 286
Provision	32	32	109	107
Amounts charged against the accrual	(41)	(59)	(136)	(166)
Balance, end of the period	$180	$ 227	$180	$ 227

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

10. Income Taxes

Our effective income tax rates were 24.1% and 23.9% for the three and nine months ended September 30, 2015, respectively. Our effective income tax rates were 24.7% and 24.0% for the three and nine months ended September 30, 2014, respectively. Our effective income tax rate is based upon estimated income before provision for income taxes for the year, composition of the income in different countries, and adjustments, if any, in the applicable quarterly periods for potential tax consequences, benefits and/or resolutions of tax audits or other tax contingencies. For the three and nine months ended September 30, 2015, the effective income tax rate varied from the statutory income tax rate principally as a result of the mix of income attributable to foreign versus domestic jurisdictions and state taxes. Our aggregate income tax rate in foreign jurisdictions is lower than our income tax rate in the United States; substantially all of our income before provision for income taxes from foreign operations has been earned by our Irish subsidiaries. For the three and nine months ended September 30, 2014, the effective income tax rate varied from the statutory income tax rate principally as a result of the mix of income attributable to foreign versus domestic jurisdictions and state taxes. On December 19, 2014, the Tax Increase Prevention Act was signed into law. Some of the provisions were retroactive to January 1, 2014 including an extension of the U.S. federal tax credit for increasing research activities through December 31, 2014. Our effective income tax rates for the three and nine months ended September 30, 2015 and 2014 do not reflect any federal tax credit for increasing research activities.

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

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

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

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11. Shareholders' Equity

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Numerator:				
Net income attributable to EMC Corporation	$480	$ 587	$1,219	$ 1,568
Incremental dilution from VMware	(1)	(1)	(3)	(4)
Net income – dilution attributable to EMC Corporation	$479	$ 586	$1,216	$ 1,564
Denominator:				
Weighted average shares, basic	1,934	2,032	1,945	2,033
Weighted common stock equivalents	14	25	18	26
Assumed conversion of the 2013 Notes and associated warrants	—	—	—	6
Weighted average shares, diluted	1,948	2,057	1,963	2,065

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

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

Restricted stock awards, restricted stock units and options to acquire shares of our common stock in the amount of 19 million and 7 million for the three and nine months ended September 30, 2015, respectively, and 3 million for the nine months ended September 30, 2014, were excluded from the calculation of diluted earnings per share because they were anti-dilutive. There were minimal antidilutive restricted stock awards, restricted stock units and options to acquire shares of our common stock excluded from the calculation of diluted earnings per share for the three months ended September 30, 2014. The incremental dilution from VMware represents the impact of VMware's dilutive securities on EMC's consolidated diluted net income per share and is calculated by multiplying the difference between VMware's basic and diluted earnings per share by the number of VMware shares owned by EMC.

Repurchase of Common Stock

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

VMware's Board of Directors authorized the repurchase of $1.0 billion of VMware's Class A common stock in January 2015. All shares repurchased under VMware's stock repurchase programs are retired. For the nine months ended September 30, 2015, VMware spent $1,050 million to repurchase 13 million shares of their common stock. Of the

$1.0 billion authorized for repurchase, VMware has a remaining balance of $910 million authorized for future repurchases.

Cash Dividend on Common Stock

In May 2013, our Board of Directors approved the initiation of a quarterly cash dividend to EMC shareholders of $0.10 per share of common stock and in April 2014, our Board of Directors increased the dividend to $0.115 per share of common stock.

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Our Board of Directors declared the following dividends during 2015 and 2014:

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

Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss), which is presented net of tax, for the nine months ended September 30, 2015 and 2014 consist of the following (tables in millions):

	Foreign Currency Translation Adjustments	Unrealized Net Gains on Investments	Unrealized Net Losses on Derivatives	Recognition of Actuarial Net Loss from Pension and Other Postretirement Plans	Accumulated Other Comprehensive Income Attributable to the Non-controlling Interest in VMware, Inc.	Total
Balance as of December, 31 2014[(a)]	$ (187)	$ 49	$ (99)	$(126)	$(3)	$(366)
Other comprehensive income (loss) before reclassifications	(137)	(10)	11	—	3	(133)
Net losses (gains) reclassified from accumulated other comprehensive income	—	(26)	(8)	—	—	(34)
Net current period other comprehensive income (loss)	(137)	(36)	3	—	3	(167)
Balance as of September 30, 2015[(b)]	$ (324)	$ 13	$ (96)	$(126)	$—	$(533)

(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 $8 million for unrealized net gains on investments, $(58) million for unrealized net losses on derivatives and $(70) 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	Accumulated Other Comprehensive Income	Total

				Other Postretirement Plans	Attributable to the Non-controlling Interest in VMware, Inc.	
Balance as of December, 31 2013[a]	$ (53)	$ 31	$ (106)	$(110)	$(1)	$(239)
Other comprehensive income (loss) before reclassifications	(57)	107	11	2	—	63
Net losses (gains) reclassified from accumulated other comprehensive income	—	(19)	(2)	(1)	—	(22)
Net current period other comprehensive income (loss)	(57)	88	9	1	—	41
Balance as of September 30, 2014[b]	$ (110)	$ 119	$ (97)	$(109)	$(1)	$(198)

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

(b) Net of taxes (benefits) of $72 million for unrealized net gains on investments, $(63) million for unrealized net losses on derivatives and $(61) million for actuarial net loss on pension plans.

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

	For the Three Months Ended		
Accumulated Other Comprehensive Income Components	September 30, 2015	September 30, 2014	Impacted Line Item on Consolidated Income Statements
Net gain on investments:	$8	$13	Investment income
	(3)	(5)	Provision for income tax
Net of tax	$5	$8	
Net gain on derivatives:			
Foreign exchange contracts	$1	$12	Product sales revenue
Foreign exchange contracts	—	(7)	Cost of product sales
Interest rate swap	(6)	(6)	Other interest expense
Total net gain (loss) on derivatives before tax	(5)	(1)	
	2	—	Provision for income tax
Net of tax	$(3)	$(1)	
Net gain from pension and other postretirement plans	$—	$1	Selling, general and administrative expense
	—	—	Provision for income tax
Net of tax	$—	$1	

	For the Nine Months Ended		
Accumulated Other Comprehensive Income Components	September 30, 2015	September 30, 2014	Impacted Line Item on Consolidated Income Statements
Net gain on investments:	$42	$30	Investment income
	(16)	(11)	Provision for income tax
Net of tax	$26	$19	
Net gain on derivatives:			
Foreign exchange contracts	$22	$15	Product sales revenue
Foreign exchange contracts	(1)	(7)	Cost of product sales
Interest rate swap	(17)	(6)	Other interest expense
Total net gain on derivatives before tax	4	2	
	4	—	Provision for income tax
Net of tax	$8	$2	
Net gain from pension and other postretirement plans	$—	$1	Selling, general and administrative expense
	—	—	Provision for income tax
Net of tax	$—	$1	

12. Restructuring and Acquisition-Related Charges

For the three and nine months ended September 30, 2015, we incurred restructuring and acquisition-related charges of $68 million and $226 million, respectively. For the three and nine months ended September 30, 2014, we incurred restructuring and acquisition-related charges of $39 million and $187 million, respectively. For the three and nine months ended September 30, 2015, EMC incurred $66 million and $200 million, respectively, of restructuring charges, primarily related to our current year restructuring programs, and $1 million and $4 million, respectively, of charges in connection with acquisitions for financial, advisory, legal and accounting services. For the nine months ended September 30, 2015, VMware incurred $20 million of restructuring charges, primarily related to its current year restructuring program. For the three and nine months ended September 30,

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2015, VMware incurred $1 million and $2 million, respectively, of charges in connection with acquisitions for financial, advisory, legal and accounting services.

For the three and nine months ended September 30, 2014, EMC incurred $31 million and $175 million, respectively, of restructuring charges, primarily related to our 2014 restructuring programs, and during the three and nine months ended September 30, 2014, EMC incurred $2 million and $3 million, respectively, of charges in connection with acquisitions for financial, advisory, legal and accounting services. For the three and nine months ended September 30, 2014, VMware incurred $6 million and $4 million, respectively, of restructuring charges, primarily related to its 2014 restructuring programs. For the nine months ended September 30, 2014, VMware incurred $5 million of charges in connection with acquisitions for financial, advisory, legal and accounting services.

In the first, second and third quarters of 2015, EMC implemented restructuring programs to create further operational efficiencies which will result in workforce reductions of approximately 1,320, 160 and 680 positions, respectively. The actions will impact positions around the globe covering our Information Storage, RSA Information Security, Enterprise Content Division and Pivotal segments. All of these actions are expected to be completed within a year of the start of the program.

During 2014, EMC implemented restructuring programs to create further operational efficiencies which resulted in a workforce reduction of approximately 2,100 positions, of which 1,320, 210 and 240 positions were identified in the first, second and third quarters of 2014, respectively. The actions impacted positions around the globe covering our Information Storage, RSA Information Security and Enterprise Content Division segments. All of these actions were completed within a year of the start of the program.

In the first quarter of 2015, VMware eliminated approximately 350 positions across all major functional groups and geographies to streamline its operations. All of these actions are expected to be completed within a year of the start of the program. During the third quarter of 2014, VMware eliminated approximately 90 positions across all major functional groups and geographies to streamline its operations.

For the three and nine months ended September 30, 2015, we recognized $5 million and $22 million, respectively, of lease termination costs for facilities vacated in the period in accordance with our plan as part of all of our restructuring programs and for costs associated with terminating other contractual obligations. For the three and nine months ended September 30, 2014, we recognized $2 million and $10 million, respectively, of lease termination costs for facilities vacated in the period in accordance with our plan as part of all of our restructuring programs and for costs associated with terminating other contractual obligations. These costs are expected to be utilized by the end of 2016.

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

Three Months Ended September 30, 2015:
2015 EMC Programs

Category	Balance as of June 30, 2015	2015 Charges	Utilization	Balance as of September 30, 2015
Workforce reductions	$89	$62	$(33)	$118
Consolidation of excess facilities and other contractual obligations	12	6	(3)	15
Total	$101	$68	$(36)	$133

Other EMC Programs

Category	Balance as of June 30, 2015	Adjustments to the Provision	Utilization	Balance as of September 30, 2015
Workforce reductions	$43	$(1)	$(14)	$28
Consolidation of excess facilities and other contractual obligations	13	(1)	(1)	11
Total	$56	$(2)	$(15)	$39

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Nine Months Ended September 30, 2015:
2015 EMC Programs

Category	Balance as of December 31, 2014	2015 Charges	Utilization	Balance as of September 30, 2015
Workforce reductions	$—	$185	$(67)	$118
Consolidation of excess facilities and other contractual obligations	—	23	(8)	15
Total	$—	$208	$(75)	$133

Other EMC Programs

Category	Balance as of December 31, 2014	Adjustments to the Provision	Utilization	Balance as of September 30, 2015
Workforce reductions	$102	$(7)	$(67)	$28
Consolidation of excess facilities and other contractual obligations	19	(1)	(7)	11
Total	$121	$(8)	$(74)	$39

VMware Programs

Category	Balance as of December 31, 2014	2015 Charges	Utilization	Balance as of September 30, 2015
Workforce reductions	$8	$20	$(27)	$1
Consolidation of excess facilities and other contractual obligations	—	—	—	—
Total	$8	$20	$(27)	$1

Three Months Ended September 30, 2014:
2014 EMC Programs

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

Other EMC Programs

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

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Nine Months Ended September 30, 2014:
2014 EMC Programs

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

Other EMC Programs

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

13. Commitments and Contingencies

Litigation

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

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

As of November 6, 2015, eleven lawsuits challenging the Merger have been filed purportedly on behalf of Company shareholders, of which eight were filed (or are now pending) in the Business Litigation Session of the Suffolk County Superior Court in Massachusetts, one was filed in the Middlesex County Superior Court in Massachusetts, and two were filed in the United States District Court for the District of Massachusetts.

All of the lawsuits are purported shareholder class actions advancing substantially the same allegations that the Merger Agreement was adopted in violation of the fiduciary duties of the Company’s directors and seeking injunctive relief to enjoin the merger, as well as other remedies. Certain of the lawsuits also allege that the Company, Denali Holding Inc., Dell Inc., Universal Acquisition Co., Silver Lake Partners, LLC, and/or MSD Partners, LLC aided and abetted the alleged breaches of fiduciary duty by the directors.

On October 23, 2015, the Company and its directors served a motion to consolidate all of the lawsuits then pending in state court in Massachusetts with and into the first-filed of those actions, IBEW Local No. 129 Benefit Fund v. Joseph M. Tucci, et al. That action names as defendants the Company and each member of its Board of Directors (as constituted as of October 12, 2015), Denali Holding Inc., Dell Inc., and Universal Acquisition Co.

On October 27, 2015, the Company and its directors served a motion 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

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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 November 5, 2015, the Company and its directors filed motions (i) to stay or dismiss the actions pending in the United States District Court for the District of Massachusetts on the ground that those actions are duplicative of the actions pending in state court in Massachusetts; and (ii) to dismiss those same actions pursuant to Rule 12(b)(1) of the Federal Rules of Civil Procedure on the ground that the complaints in those actions fail to allege a basis for the federal court's subject matter jurisdiction.

No defendant has yet filed a responsive pleading in the other lawsuits.

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.

14. 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.

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

	EMC Information Infrastructure					
	Information Storage	Enterprise Content Division	RSA Information Security	EMC Information Infrastructure	Pivotal	EMC Information Infrastructure plus Pivotal
Three Months Ended September 30, 2015						
Revenues:						
Product revenues	$2,424	$37	$106	$2,567	$22	$2,589
Services revenues	1,537	107	137	1,781	45	1,826
Total consolidated revenues	3,961	144	243	4,348	67	4,415
Gross profit	$2,071	$97	$163	$2,331	$24	$2,355
Gross profit percentage	52.3 %	67.3 %	66.9 %	53.6 %	36.2 %	53.3 %
Research and development				397	28	425
Selling, general and administrative				1,220	54	1,274
Restructuring and acquisition-related charges				—	—	—
Total operating expenses				1,617	82	1,699
Operating income (expense)				$714	$(58)	$656

	EMC Information Infrastructure plus Pivotal	VMware Virtual Infrastructure	Corp Reconciling Items	Consolidated
Three Months Ended September 30, 2015				
Revenues:				
Product revenues	$2,589	$680	$—	$3,269
Services revenues	1,826	984	—	2,810
Total consolidated revenues	4,415	1,664	—	6,079
Gross profit	$2,355	$1,451	$(101)	$3,705
Gross profit percentage	53.3 %	87.2 %	— %	60.9 %
Research and development	425	274	103	802
Selling, general and administrative	1,274	651	220	2,145
Restructuring and acquisition-related charges	—	—	68	68
Total operating expenses	1,699	925	391	3,015
Operating income (expense)	656	526	(492)	690
Non-operating income (expense), net	2	4	—	6
Income tax provision (benefit)	185	89	(106)	168

Net income	473	441	(386)	528
Net income attributable to the non-controlling interest in VMware, Inc.	—	(77)	29	(48)
Net income attributable to EMC Corporation	$473	$364	$(357)	$480

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	EMC Information Infrastructure					
	Information Storage	Enterprise Content Division	RSA Information Security	EMC Information Infrastructure	Pivotal	EMC Information Infrastructure plus Pivotal
Three Months Ended September 30, 2014						
Revenues:						
Product revenues	$2,595	$36	$114	$2,745	$17	$2,762
Services revenues	1,456	118	147	1,721	41	1,762
Total consolidated revenues	4,051	154	261	4,466	58	4,524
Gross profit	$2,238	$100	$173	$2,511	$27	$2,538
Gross profit percentage	55.2 %	65.2 %	66.3 %	56.2 %	46.9 %	56.1 %
Research and development				372	33	405
Selling, general and administrative				1,146	46	1,192
Restructuring and acquisition-related charges				—	—	—
Total operating expenses				1,518	79	1,597
Operating income (expense)				$993	$(52)	$941

	EMC Information Infrastructure plus Pivotal	VMware Virtual Infrastructure	Corp Reconciling Items	Consolidated
Three Months Ended September 30, 2014				
Revenues:				
Product revenues	$2,762	$638	$—	$3,400
Services revenues	1,762	870	—	2,632
Total consolidated revenues	4,524	1,508	—	6,032
Gross profit	$2,538	$1,304	$(99)	$3,743
Gross profit percentage	56.1 %	86.5 %	— %	62.0 %
Research and development	405	263	99	767
Selling, general and administrative	1,192	586	212	1,990
Restructuring and acquisition-related charges	—	—	39	39
Total operating expenses	1,597	849	350	2,796
Operating income (expense)	941	455	(449)	947
Non-operating income (expense), net	(120)	6	—	(114)
Income tax provision (benefit)	207	99	(100)	206
Net income	614	362	(349)	627
	—	(73)	33	(40)

Net income attributable to the non-controlling interest in VMware, Inc.				
Net income attributable to EMC Corporation	$614	$289	$(316)	$587

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	EMC Information Infrastructure					
	Information Storage	Enterprise Content Division	RSA Information Security	EMC Information Infrastructure	Pivotal	EMC Information Infrastructure plus Pivotal
Nine Months Ended September 30, 2015						
Revenues:						
Product revenues	$7,113	$103	$303	$7,519	$57	$7,576
Services revenues	4,539	333	427	5,299	128	5,427
Total consolidated revenues	11,652	436	730	12,818	185	13,003
Gross profit	$6,014	$291	$487	$6,792	$71	$6,863
Gross profit percentage	51.6 %	66.8 %	66.7 %	53.0 %	38.7 %	52.8 %
Research and development				1,219	79	1,298
Selling, general and administrative				3,591	156	3,747
Restructuring and acquisition-related charges				—	—	—
Total operating expenses				4,810	235	5,045
Operating income (expense)				$1,982	$(164)	$1,818

	EMC Information Infrastructure plus Pivotal	VMware Virtual Infrastructure	Corp Reconciling Items	Consolidated
Nine Months Ended September 30, 2015				
Revenues:				
Product revenues	$7,576	$1,899	$(76)	$9,399
Services revenues	5,427	2,863	—	8,290
Total consolidated revenues	13,003	4,762	(76)	17,689
Gross profit	$6,863	$4,143	$(375)	$10,631
Gross profit percentage	52.8 %	87.0 %	— %	60.1 %
Research and development	1,298	788	286	2,372
Selling, general and administrative	3,747	1,896	642	6,285
Restructuring and acquisition-related charges	—	—	226	226
Total operating expenses	5,045	2,684	1,154	8,883
Operating income (expense)	1,818	1,459	(1,529)	1,748
Non-operating income (expense), net	7	24	(20)	11
Income tax provision (benefit)	494	285	(359)	420
Net income	1,331	1,198	(1,190)	1,339

Net income attributable to the non-controlling interest in VMware, Inc.	—	(224)	104	(120)
Net income attributable to EMC Corporation	$1,331	$974	$(1,086)	$1,219

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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
Nine Months Ended September 30, 2014						
Revenues:						
Product revenues	$7,447	$108	$323	$7,878	$43	$7,921
Services revenues	4,260	358	425	5,043	118	5,161
Total consolidated revenues	11,707	466	748	12,921	161	13,082
Gross profit	$6,405	$300	$497	$7,202	$71	$7,273
Gross profit percentage	54.7 %	64.4 %	66.4 %	55.7 %	44.3 %	55.6 %
Research and development				1,106	98	1,204
Selling, general and administrative				3,388	133	3,521
Restructuring and acquisition-related charges				—	—	—
Total operating expenses				4,494	231	4,725
Operating income (expense)				$2,708	$(160)	$2,548

	EMC Information Infrastructure plus Pivotal	VMware Virtual Infrastructure	Corp Reconciling Items	Consolidated
Nine Months Ended September 30, 2014				
Revenues:				
Product revenues	$7,921	$1,807	$—	$9,728
Services revenues	5,161	2,502	—	7,663
Total consolidated revenues	13,082	4,309	—	17,391
Gross profit	$7,273	$3,761	$(290)	$10,744
Gross profit percentage	55.6 %	87.3 %	— %	61.8 %
Research and development	1,204	737	298	2,239
Selling, general and administrative	3,521	1,725	606	5,852
Restructuring and acquisition-related charges	—	—	187	187
Total operating expenses	4,725	2,462	1,091	8,278
Operating income (expense)	2,548	1,299	(1,381)	2,466
Non-operating income (expense), net	(285)	21	11	(253)
Income tax provision (benefit)	584	274	(326)	532
Net income	1,679	1,046	(1,044)	1,681

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

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EMC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
United States	$3,318	$3,212	$9,602	$9,102
Europe, Middle East and Africa	1,630	1,672	4,811	4,933
Asia Pacific and Japan	787	821	2,311	2,346
Latin America, Mexico and Canada	344	327	965	1,010
Total	$6,079	$6,032	$17,689	$17,391

No country other than the United States accounted for 10% or more of revenues during the three and nine months ended September 30, 2015 or 2014.

Long-lived assets, excluding financial instruments, deferred tax assets, goodwill and intangible assets, in the United States were $4,496 million at September 30, 2015 and $4,355 million at December 31, 2014. Internationally, long-lived assets, excluding financial instruments, deferred tax assets, goodwill and intangible assets, were $985 million at September 30, 2015 and $1,021 million at December 31, 2014. No country other than the United States accounted for 10% or more of total long-lived assets, excluding financial instruments and deferred tax assets, at September 30, 2015 or December 31, 2014.

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

This Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations should be read in conjunction with our consolidated financial statements and notes thereto which appear elsewhere in this Quarterly Report on Form 10-Q. The following discussion contains forward-looking statements and should also be read in conjunction with the risk factors set forth in Item 1A of Part II. The forward-looking statements do not include the potential impact of any mergers, acquisitions, divestitures, securities offerings or business combinations that may be announced or closed after the date hereof.

Certain tables may not add or recalculate due to rounding.

INTRODUCTION

We manage our company as a federation of businesses to capitalize on the emerging and rapidly growing trends of cloud computing, Big Data, mobile, social networking and security. Our federated businesses include EMC Information Infrastructure, Pivotal, VMware Virtual Infrastructure and Virtustream, which we acquired on July 9, 2015, to further develop our cloud services strategy.

To capitalize on these trends and align our businesses effectively, we have developed a market growth strategy that has four main pillars: our best-in class products and solutions that are or will be offered as a service, our continued focus on cloud services for both on and off premise implementations, a coordinated go-to-market approach led by a federation go-to-market organization and our leadership team and global talent. We believe these strategies enable us to become a more trusted partner to our customers as they embark on their digital transformation and transition to the hybrid cloud, and to drive the overall revenue and growth opportunity of EMC Information Infrastructure and the faster growth opportunities of VMware Virtual Infrastructure, Pivotal and Virtustream. Additionally, we recently announced our intention to form a cloud services business in the first quarter of 2016, by combining EMC managed services business and Virtustream with VMware's vCloud Air to address the large market potential for cloud offerings across hybrid cloud, mission critical workloads, and managed cloud environments.

We continue to invest in the best technology and in building the most complete portfolio. Included within these investments are our six key areas of growth opportunities that further strengthen our ability to help customers meet their top IT priorities: Pivotal; AirWatch; NSX; DSSD; ViPR, Elastic Cloud Storage, ScaleIO; and XtremIO. The ability of our federated businesses to work together results in differentiated solutions, including Enterprise Hybrid Cloud and Business Data Lakes, with broad transformational capabilities which allow our customers to maximize their control, efficiency and choice.

In the second quarter of 2015, we initiated a cost reduction and business transformation program to better align our expenses and improve the operations of our federation of businesses. This program is primarily in response to increased pressure on our traditional storage businesses and accordingly, the vast majority of this program will be focused on our EMC Information Infrastructure segment. The goal of this new cost reduction and business transformation program is to reduce our current annual cost base by $850 million and currently addresses eleven major areas including direct materials procurement, facilities and manufacturing optimization and SKU simplification. We expect the $850 million reduction in our annual cost base to be achieved in 2017.

Proposed Transaction with Dell

On October 12, 2015, EMC and Denali Holding Inc. ("Parent"), the parent company of Dell Inc. ("Dell"), signed a definitive agreement ("Merger Agreement") under which the Parent will acquire EMC Corporation, with VMware remaining a publicly-traded company. The combined company will be a leader in numerous high-growth areas of the $2 trillion information technology market, with a complementary portfolio, sales team and research and development ("R&D") organization across four globally recognized technology franchises – servers, storage, virtualization and PCs – and brings together strong capabilities in the fast growing areas of the industry, including converged infrastructure, digital transformation, software-defined data center, hybrid cloud, mobile and security.

For additional information related to the Merger Agreement, please refer to our Current Report on Form 8-K filed with the Securities and Exchange Commission ("SEC") on October 13, 2015, which includes the full text of the Merger Agreement included as Exhibit 2.1.

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

EMC Information Infrastructure

Our EMC Information Infrastructure business consists of three segments: Information Storage, Enterprise Content Division, formerly known as Information Intelligence Group, and RSA Information Security. The objective for our EMC Information Infrastructure business is to simultaneously increase our market share through our strong portfolio of offerings while investing in the business. During 2015, we have continued to invest in expanding our total addressable market through increased internal R&D and through business acquisitions, with a focus on flash, Big Data storage, software-defined storage and converged infrastructure to facilitate the enablement of hybrid cloud infrastructures. We have developed a product portfolio to address customer needs that enables the adoption of hybrid cloud approaches as most enterprises and organizations embark on IT transformation initiatives incorporating both new and traditional storage architectures including converged infrastructure, cloud services, Flash, storage sharing, and software-defined and software-managed architectures.

Our go-to market model, where we continue to leverage our direct sales force and services organization, as well as our channel and services partners and service providers, positions us well to help enable customers to transition to cloud computing and benefit from Big Data in the most advantageous manner for their businesses. We offer three alternatives to help our customers transition to cloud architectures and leverage Big Data to meet these needs: our best-of-breed infrastructure products, proven infrastructure through our VSPEX reference architecture and converged infrastructure which support our federation-level solutions. Our service provider program continues to be an important part of our strategy to lead our customers to hybrid cloud infrastructures.

Pivotal

Pivotal is focused on building a platform comprising the next generation of data fabrics, application fabrics and a cloud independent platform-as-a-service (“PaaS”) to support cloud computing and Big and Fast Data Applications. The foundation of our technology platform, Pivotal Cloud Foundry (“Pivotal CF”), continues to gain momentum as an open platform for developing and operating new cloud applications that can be run on multiple leading private and public clouds, in addition to our own, and not lock a customer into any one cloud in particular. It continues to enable developers to produce next generation applications and user experiences as well as transform existing applications to operate with greater speed at lower costs. On top of this platform, Pivotal will continue to offer its own suite of big and fast data capabilities, the Big Data Suite (“BDS”), featuring game changing innovations that use Hadoop Distributed File System (“HDFS”) and scalar processing technologies. Additionally, its agile development services business, Pivotal Labs, continues to help existing customers and digital era startups build industrial-strength applications with more agility, more speed, and better quality. Pivotal is becoming an increasingly important factor in our cross-federation solutions, which offer a combination of products, converged infrastructure and services that offer a unique value proposition to customers, positioning the business for rapid growth in the future.

VMware Virtual Infrastructure

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

VMware generally sells its solutions using enterprise agreements (“EAs”) or as part of its non-EA, transactional, business. EAs are comprehensive volume license offerings, offered both directly by VMware and through certain channel partners that also provide for multi-year maintenance and support.

Historically, the majority of VMware license sales have been from its standalone vSphere product, which is included in its compute product category within its SDDC architecture. However, over the last two years, standalone vSphere product license sales have been declining. As the transformation of the IT industry continues, VMware expects that its growth of license sales will be increasingly derived from sales of its newer products, suites and services solutions across its SDDC portfolio. Hybrid cloud computing continued to grow during the three and nine months ended

September 30, 2015. VMware's AirWatch business models include an on-premise solution that it offers through the sale of perpetual licenses and an off-premise solution that it offers as software-as-a-service. AirWatch products and services continued to contribute to the growth of its end-user computing products during the three and nine months ended September 30, 2015.

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

RESULTS OF OPERATIONS

Revenues

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

	For the Three Months Ended			
	September 30, 2015	September 30, 2014	$ Change	% Change
Information Storage	$3,961	$4,051	$(90)	(2)%
Enterprise Content Division	144	154	(10)	(7)%
RSA Information Security	243	261	(18)	(7)%
Pivotal	67	58	9	16 %
VMware Virtual Infrastructure	1,664	1,508	156	10 %
Total consolidated revenues	$6,079	$6,032	$47	1 %

	For the Nine Months Ended			
	September 30, 2015	September 30, 2014	$ Change	% Change
Information Storage	$11,652	$11,707	$(55)	— %
Enterprise Content Division	436	466	(30)	(6)%
RSA Information Security	730	748	(18)	(2)%
Pivotal	185	161	24	14 %
VMware Virtual Infrastructure	4,762	4,309	453	11 %
Corporate reconciling items	(76)	—	(76)	— %
Total consolidated revenues	$17,689	$17,391	$298	2 %

Consolidated product revenues decreased 4% and 3% to $3,269 million and $9,399 million for both the three and nine months ended September 30, 2015, respectively. The decrease during the three month period was primarily driven by the decrease in Information Storage, somewhat offset by an increase in VMware Virtual Infrastructure. The decrease during the nine month period was primarily driven by the decrease in Information Storage as well as the VMware GSA settlement charge.

The Information Storage segment’s product revenues decreased 7% and 4% to $2,424 million and $7,113 million for the three and nine months ended September 30, 2015, respectively. These decreases were driven by the negative impact of foreign currency fluctuations and declines in our traditional storage product sales as customers continue to purchase these product categories primarily to cover short-term needs as they begin to drive digital transformation of their IT infrastructures. Additionally, customers remained cautious about their transactional spend which resulted in a higher than expected number of unshipped orders at September 30, 2015. These decreases were partially offset by an increase in revenue resulting from the consolidation of VCE. Revenue from the high-end storage business decreased 12% and 11% for the three and nine months ended September 30, 2015, respectively, and revenue from the Unified and Backup Recovery business decreased 10% during both the three and nine months ended September 30, 2015. Revenue from the Emerging Storage business increased 27% and 30% for the three and nine months ended September 30, 2015, respectively, primarily due to increased demand for XtremIO, Isilon and Software-Defined-Storage. XtremIO experienced triple-digit growth in both the three and nine months ended September 30, 2015, maintaining its lead in the all-flash-array market segment. Isilon continued to gain traction in Big Data analytics running Hadoop workloads; and our Software-Defined-Storage portfolio that includes ViPR, Elastic Cloud Storage and ScaleIO continues to add new customers.

The Pivotal segment’s product revenues increased 26% and 32% to $22 million and $57 million for the three and nine months ended September 30, 2015, respectively, due to a triple digit increase in subscription orders for Pivotal CF and

BDS, partially offset by a decrease in up-front license revenue. Pivotal is benefiting from the transition to next-gen applications by the enterprise and continues to expand the number of customers adopting Pivotal CF.

The VMware Virtual Infrastructure segment's product revenues increased 7% and 5% to $680 million and $1,899 million for the three and nine months ended September 30, 2015, respectively. VMware's license revenues increased during the three and nine months ended September 30, 2015 primarily due to increased sales from its emerging product offerings including AirWatch mobile solutions and VMware NSX, as well as revenues from its hybrid cloud offerings. Sales of products beyond standalone vSphere, including vSphere with Operations Management, also contributed to license revenues growth, partially offset by a decline

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

in its standalone vSphere product license sales. Partially offsetting these increases was the negative impact of certain factors including lower sales of standalone vSphere, changes in foreign currency fluctuations, and increased growth derived from its hybrid cloud and SaaS offerings for which revenue is recognized over time. Growth from its hybrid and SaaS offerings has resulted in less revenue being recognized up-front which has had an adverse impact on its growth rate during 2015.

The RSA Information Security segment's product revenues decreased 7% and 6% to $106 million and $303 million for the three and nine months ended September 30, 2015, respectively, resulting from declines in non-strategic products which more than offset growth in the rest of the RSA portfolio. Security remains a high customer priority and RSA is increasingly focused on the rapidly growing security analytics and next generation identity management solution as well as extending its market leadership in governance, risk and compliance ("GRC") which enables them to help customers secure their cloud-based IT environments.

The Enterprise Content Division segment's product revenues were flat at $37 million and decreased 4% to $103 million for the three and nine months ended September 30, 2015, respectively. The decrease during the nine months ended September 30, 2015 was primarily due to the timing of revenue recognition due to the increase in subscription-based offerings with ratable revenue recognition, partially offset by increased license sales during the second and third quarters. This business continues to innovate to meet customers' demand for technologies that work seamlessly in mobile cloud environments.

Included in EMC's consolidated product revenues in the nine months ended September 30, 2015 is the VMware GSA settlement charge. During the second quarter of 2015, VMware reached an agreement with the Department of Justice ("DOJ") and the General Services Administration ("GSA") to pay $76 million to resolve allegations that VMware's government sales practices between 2006 and 2013 had violated the federal False Claims Act. The settlement was paid and recorded as a reduction to product revenues during the nine months ended September 30, 2015 and included in corporate reconciling items as noted above.

Consolidated services revenues increased 7% and 8% to $2,810 million and $8,290 million for the three and nine months ended September 30, 2015, respectively. The consolidated services revenues increases were primarily driven by the Information Storage and VMware Virtual Infrastructure segments' services revenues resulting from increased revenue associated with maintenance services and increased demand for professional services due to growth in its license sales and solution offerings.

The Information Storage segment's services revenues increased 6% and 7% to $1,537 million and $4,539 million for the three and nine months ended September 30, 2015, respectively. The increase in services revenues was primarily attributable to higher revenue associated with maintenance services due to a larger installed base as well as an increase in renewals associated with aforementioned customer caution on transactional spend. We have experienced a growing demand for professional services as we assist with customers' transitions to cloud architectures, transforming IT infrastructures and virtualizing mission-critical applications.

The Pivotal segment's services revenues increased 12% and 8% to $45 million and $128 million for the three and nine months ended September 30, 2015, respectively. Services revenues increased during both the three and nine months ended September 30, 2015 due to increases in professional services revenues resulting from continued strong demand for our Pivotal Labs services.

The VMware Virtual Infrastructure segment's services revenues increased 13% and 14% to $984 million and $2,863 million for the three and nine months ended September 30, 2015, respectively. The increase in services revenues for

both the three and nine months ended September 30, 2015 was primarily attributable to growth in VMware's software maintenance revenues which benefited from renewals, multi-year software maintenance contracts sold in previous periods and additional maintenance contracts sold in conjunction with new software license sales. In addition, professional services increased during both periods compared to the same periods in the prior year due to growth in VMware's license sales and solution offerings.

The RSA Information Security segment's services revenues decreased 7% to $137 million and increased slightly to $427 million for the three and nine months ended September 30, 2015, respectively. Services revenues decreased during the three months ended September 30, 2015 primarily due to decreases in professional services. Services revenues increased slightly during the nine months ended September 30, 2015 due to increases in maintenance revenues, resulting from continued demand for support from its installed base, somewhat offset by decreases in professional services.

The Enterprise Content Division segment's services revenues decreased 9% and 7% to $107 million and $333 million for the three and nine months ended September 30, 2015, respectively. Services revenues decreased due to decreases in both maintenance and professional services.

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

Consolidated revenues by geography were as follows (in millions):

	For the Three Months Ended			
	September 30, 2015	September 30, 2014	% Change	
United States	$3,318	$3,212	3	%
Europe, Middle East and Africa	1,630	1,672	(3	)%
Asia Pacific and Japan	787	821	(4	)%
Latin America, Mexico and Canada	344	327	5	%
Total revenues	$6,079	$6,032	1	%
	For the Nine Months Ended			
	September 30, 2015	September 30, 2014	% Change	
United States	$9,602	$9,102	5	%
Europe, Middle East and Africa	4,811	4,933	(2	)%
Asia Pacific and Japan	2,311	2,346	(1	)%
Latin America, Mexico and Canada	965	1,010	(4	)%
Total revenues	$17,689	$17,391	2	%

Revenues increased in the three and nine months ended September 30, 2015 compared to the same periods in 2014 in the United States. Revenues decreased in the three and nine months ended September 30, 2015 compared to the same periods in 2014 in Europe, Middle East and Africa and in the Asia Pacific and Japan regions. Revenues increased in the three months and decreased in the nine months ended September 30, 2015 compared to the same periods in 2014 in Latin America, Mexico and Canada.

Changes in exchange rates negatively impacted consolidated revenue growth by 4% for both the three and nine months ended September 30, 2015. Changes in exchange rates which impacted consolidated revenues include negative impacts to growth in Europe, Middle East and Africa by 3% and Asia Pacific and Japan by 1% for both the three and nine months ended September 30, 2015. The negative impact of the change in rates was most significant for the Euro, Japanese Yen, Australian dollar, British pound and Brazilian real.

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

Costs and Expenses

The following tables present our costs and expenses, operating income and net income attributable to EMC Corporation (in millions):

	For the Three Months Ended			
	September 30, 2015	September 30, 2014	$ Change	% Change
Cost of revenue:				
Information Storage	$1,890	$1,813	$77	4 %
Enterprise Content Division	47	54	(7)	(12)%
RSA Information Security	80	88	(8)	(8)%
Pivotal	43	31	12	39 %
VMware Virtual Infrastructure	213	204	9	5 %
Corporate reconciling items	101	99	2	2 %
Total cost of revenue	2,374	2,289	85	4 %
Gross margins:				
Information Storage	2,071	2,238	(167)	(7)%
Enterprise Content Division	97	100	(3)	(4)%
RSA Information Security	163	173	(10)	(6)%
Pivotal	24	27	(3)	(10)%
VMware Virtual Infrastructure	1,451	1,304	147	11 %
Corporate reconciling items	(101)	(99)	(2)	2 %
Total gross margin	3,705	3,743	(38)	(1)%
Operating expenses:				
Research and development[1]	802	767	35	5 %
Selling, general and administrative[2]	2,145	1,990	155	8 %
Restructuring and acquisition-related charges	68	39	29	76 %
Total operating expenses	3,015	2,796	219	8 %
Operating income	690	947	(257)	(27)%
Investment income, interest expense and other expenses, net	6	(114)	120	(106)%
Income before provision for income taxes	696	833	(137)	(16)%
Income tax provision	168	206	(38)	(18)%
Net income	528	627	(99)	(16)%
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(48)	(40)	(8)	21 %
Net income attributable to EMC Corporation	$480	$587	$(107)	(18)%

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

	For the Nine Months Ended			
	September 30, 2015	September 30, 2014	$ Change	% Change
Cost of revenue:				
Information Storage	$5,638	$5,302	$336	6 %
Enterprise Content Division	145	166	(21)	(13)%
RSA Information Security	243	251	(8)	(3)%
Pivotal	114	90	24	26 %
VMware Virtual Infrastructure	619	548	71	13 %
Corporate reconciling items	299	290	9	3 %
Total cost of revenue	7,058	6,647	411	6 %
Gross margins:				
Information Storage	6,014	6,405	(391)	(6)%
Enterprise Content Division	291	300	(9)	(3)%
RSA Information Security	487	497	(10)	(2)%
Pivotal	71	71	—	— %
VMware Virtual Infrastructure	4,143	3,761	382	10 %
Corporate reconciling items	(375)	(290)	(85)	29 %
Total gross margin	10,631	10,744	(113)	(1)%
Operating expenses:				
Research and development[3]	2,372	2,239	133	6 %
Selling, general and administrative[4]	6,285	5,852	433	7 %
Restructuring and acquisition-related charges	226	187	39	21 %
Total operating expenses	8,883	8,278	605	7 %
Operating income	1,748	2,466	(718)	(29)%
Investment income, interest expense and other expenses, net	11	(253)	264	(104)%
Income before provision for income taxes	1,759	2,213	(454)	(21)%
Income tax provision	420	532	(112)	(21)%
Net income	1,339	1,681	(342)	(20)%
Less: Net income attributable to the non-controlling interest in VMware, Inc.	(120)	(113)	(7)	5 %
Net income attributable to EMC Corporation	$1,219	$1,568	$(349)	(22)%

(1) Amount includes corporate reconciling items of $103 million and $99 million for the three months ended September 30, 2015 and 2014, respectively.

(2) Amount includes corporate reconciling items of $220 million and $212 million for the three months ended September 30, 2015 and 2014, respectively.

(3) Amount includes corporate reconciling items of $286 million and $298 million for the nine months ended September 30, 2015 and 2014, respectively.

(4) Amount includes corporate reconciling items of $642 million and $606 million for the nine months ended September 30, 2015 and 2014, respectively.

Gross Margins

Overall our gross margin percentages were 60.9% and 62.0% for the three months ended September 30, 2015 and 2014, respectively. The decrease in the gross margin percentage in the three months ended September 30, 2015 compared to 2014 was attributable to the Information Storage segment, which decreased overall gross margins by 180

basis points, and the Pivotal segment, which decreased overall gross margin by 14 basis points. This decrease was partially offset by the VMware Virtual Infrastructure segment, which increased overall gross margins by 82 basis points, the Enterprise Content Division segment, which increased overall gross margins by 4 basis points and the RSA Information Security segment, which increased overall gross margins by 1 basis point. In addition, the increase in corporate reconciling items, consisting of stock-based compensation and intangible asset amortization, decreased the consolidated gross margin percentage by 4 basis points.

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

Overall our gross margin percentages were 60.1% and 61.8% for the nine months ended September 30, 2015 and 2014, respectively. The decrease in the gross margin percentage in the nine months ended September 30, 2015 compared to 2014 was attributable to the Information Storage segment, which decreased overall gross margins by 202 basis points, and the Pivotal segment, which decreased overall gross margins by 8 basis points. These decreases were partially offset by the VMware Virtual Infrastructure segment, which increased overall gross margins by 58 basis points, the RSA Information Security segment, which increased overall gross margins by 2 basis points, and the Enterprise Content Division segment, which increased overall gross margins by 5 basis points. In addition, the increase in corporate reconciling items, consisting of stock-based compensation and intangible asset amortization, decreased the consolidated gross margin percentage by 22 basis points.

The gross margin percentages for the Information Storage segment were 52.3% and 55.2% for the three months ended September 30, 2015 and 2014, respectively, and 51.6% and 54.7% for the nine months ended September 30, 2015 and 2014, respectively. The decrease in gross margin percentage for the three and nine months ended September 30, 2015 compared to the same periods in 2014 was primarily due to the consolidation of VCE and foreign currency impacts to revenue that do not impact costs in the same manner, as our costs of sales tend to have less exposure to currency volatility. In addition, there were lower product volumes during the three and nine months ended September 30, 2015 compared to the same periods in 2014. These decreases were partially offset by an increase in the mix of services revenues which have higher gross margins.

The gross margin percentages for the Pivotal segment were 36.2% and 46.9% for the three months ended September 30, 2015 and 2014, respectively, and 38.7% and 44.3% for the nine months ended September 30, 2015 and 2014, respectively. The decrease in gross margin percentage for the three and nine months ended September 30, 2015 compared to the same periods in 2014 was primarily due to a decrease in professional service margins due to the higher mix of professional services relative to agile development services.

The gross margin percentages for the VMware Virtual Infrastructure segment were 87.2% and 86.5% for the three months ended September 30, 2015 and 2014, respectively, and 87.0% and 87.3% for the nine months ended September 30, 2015 and 2014, respectively. The increase in gross margin percentage for the three months ended September 30, 2015 was due to slight increases in both product and service margins due to higher sales volume. The decrease in gross margin percentage for the nine months ended September 30, 2015 compared to the same period in 2014 was due to a higher mix of services revenues which have lower margins. In addition, costs of services revenues were higher than the comparable period in the prior year due to employee-related expenses resulting from organic growth in headcount. VMware’s acquisition of AirWatch, which occurred during the three months ended March 31, 2014, also contributed to the growth in employee-related expenses during the nine months ended September 30, 2015. Also contributing to the decrease in margin for the nine months ended September 30, 2015 was the growth in its SaaS and professional services offerings which led to an increase in professional services costs and increases in costs incurred to provide technical support as well as increases in equipment and depreciation costs.

The gross margin percentages for the RSA Information Security segment were 66.9% and 66.3% for the three months ended September 30, 2015 and 2014, respectively, and 66.7% and 66.4% for the nine months ended September 30, 2015 and 2014, respectively. Gross margins increased slightly for both the three and nine months ended September 30, 2015 compared to the same periods in 2014 due to slight increases in both product and services margins.

The gross margin percentages for the Enterprise Content Division segment were 67.3% and 65.2% for the three months ended September 30, 2015 and 2014, respectively, and 66.8% and 64.4% for the nine months ended September 30, 2015 and 2014, respectively. The increase in gross margin percentage for the three and nine months

ended September 30, 2015 compared to the same periods in 2014 was driven by an increase in the mix of license revenues which have higher margins.

For segment reporting purposes, stock-based compensation and intangible asset amortization are recognized as corporate expenses and are not allocated among our various operating segments. The increase of $85 million in the corporate reconciling items impacting gross margins for the nine months ended September 30, 2015 compared to the same period in 2014 was primarily attributable to the VMware GSA settlement. Also contributing to the increase for the nine months ended September 30, 2015 was a $6 million increase in intangible asset amortization.

Research and Development

Research and development expenses include payroll, stock-based compensation expense and other personnel-related costs associated with product development. Also included in R&D expenses are infrastructure costs, which consist of equipment and facilities costs, and depreciation expense, intangible asset amortization and capitalized software development costs.

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

The following table summarizes our consolidated R&D expenses for the three and nine months ended September 30, 2015 and 2014 (dollars in millions):

	Three Months Ended				Nine Months Ended			
	September 30, 2015	September 30, 2014	$ Change	% Change	September 30, 2015	September 30, 2014	$ Change	% Change
Research and development	$802	$ 767	$35	5 %	$2,372	$ 2,239	$133	6 %
Percentage of revenue	13 %	13 %			13 %	13 %		

The increase in R&D expenses for the three months ended September 30, 2015 compared to 2014 was attributable to the EMC Information Infrastructure business, which increased overall R&D expenses by $25 million and the VMware Virtual Infrastructure business, which increased overall R&D expenses by $11 million. In addition, corporate reconciling items increased consolidated R&D expenses by $4 million. These increases were partially offset by the Pivotal business, which decreased overall R&D expenses by $5 million.

The increase in R&D expenses for the nine months ended September 30, 2015 compared to 2014 was attributable to the EMC Information Infrastructure business, which increased overall R&D expenses by $113 million and the VMware Virtual Infrastructure business, which increased overall R&D expenses by $51 million. These increases were partially offset by the Pivotal business, which decreased overall R&D expenses by $19 million. In addition, the decrease in corporate reconciling items decreased consolidated R&D expenses by $12 million.

The following table summarizes R&D expenses within EMC's Information Infrastructure business for the three and nine months ended September 30, 2015 and 2014 (dollars in millions):

	Three Months Ended				Nine Months Ended			
	September 30, 2015	September 30, 2014	$ Change	% Change	September 30, 2015	September 30, 2014	$ Change	% Change
Research and development	$397	$ 372	$25	7 %	$1,219	$ 1,106	$113	10 %
Percentage of revenue	9 %	8 %			10 %	9 %		

R&D expenses within EMC's Information Infrastructure business increased for the three and nine months ended September 30, 2015 primarily due to increases in personnel-related costs, which are expenses driven by incremental headcount from strategic hiring and business acquisitions, and infrastructure costs. Personnel-related costs increased by $24 million and $73 million for the three and nine months ended September 30, 2015, respectively, primarily due to the consolidation of VCE and increased investments in our Emerging Storage business, partially offset by decreases in our traditional storage businesses. Also, infrastructure costs increased by $5 million and $27 million and depreciation related expense increased by $9 million and $25 million for the three and nine months ended September 30, 2015, respectively, as EMC continues to develop product software and service offerings. These increases were partially offset by a decrease in capitalized software development cost of $12 million and $32 million for the three and nine months ended September 30, 2015, respectively.

The following table summarizes R&D expenses within the Pivotal business for the three and nine months ended September 30, 2015 and 2014 (dollars in millions):

	Three Months Ended				Nine Months Ended			
	September 30, 2015	September 30, 2014	$ Change	% Change	September 30, 2015	September 30, 2014	$ Change	% Change
Research and development	$28	$ 33	$(5)	(16)%	$79	$ 98	$(19)	(19)%
Percentage of revenue	41 %	56 %			43 %	61 %		

R&D expenses within the Pivotal business decreased for the three and nine months ended September 30, 2015 primarily due to a decrease in personnel-related costs as the business transitioned away from non-strategic offerings during 2014.

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

The following table summarizes R&D expenses within the VMware Virtual Infrastructure business for the three and nine months ended September 30, 2015 and 2014 (dollars in millions):

	Three Months Ended				Nine Months Ended			
	September 30, 2015	September 30, 2014	$ Change	% Change	September 30, 2015	September 30, 2014	$ Change	% Change
Research and development	$274	$ 263	$11	4 %	$788	$ 737	$51	7 %
Percentage of revenue	16 %	17 %			17 %	17 %		

R&D expenses within the VMware Virtual Infrastructure business increased for the three and nine months ended September 30, 2015 primarily due to growth in personnel-related expenses of $14 million and $50 million, respectively, due to organic growth in headcount and through the AirWatch acquisition, which was partially offset by the positive impact from fluctuations in the exchange rate between the U.S. dollar and foreign currencies. Additionally, depreciation related R&D expenses within the VMware Virtual Infrastructure business decreased for both the three and nine months ended September 30, 2015.

The following table summarizes corporate reconciling items within R&D expenses for the three and nine months ended September 30, 2015 and 2014 (dollars in millions):

	Three Months Ended				Nine Months Ended			
	September 30, 2015	September 30, 2014	$ Change	% Change	September 30, 2015	September 30, 2014	$ Change	% Change
Corporate reconciling items	$103	$ 99	$4	4 %	$286	$ 298	$(12)	(4)%

Corporate reconciling items within R&D, which consist of stock-based compensation expense and intangible asset amortization, increased for the three months ended September 30, 2015 primarily due to stock-based compensation expense, which increased by $6 million. For the nine months ended September 30, 2015, corporate reconciling items decreased primarily due to intangible asset amortization, which decreased by $5 million.

Selling, General and Administrative

Selling expenses include payroll, sales commissions, stock-based compensation expense and other personnel-related costs associated with the marketing and sale of product offerings. Also included in selling expenses are product launch and business development costs, including travel expenses, as well as equipment and facilities costs, including the related depreciation expense and intangible asset amortization. General and administrative expenses include payroll, stock-based compensation expense and other personnel-related costs incurred to support the overall business. These expenses include costs associated with the finance, human resources, legal and other administrative functions and initiatives.

The following table summarizes our consolidated selling, general and administrative ("SG&A") expenses for the three and nine months ended September 30, 2015 and 2014 (dollars in millions):

	Three Months Ended				Nine Months Ended			
	September 30, 2015	September 30, 2014	$ Change	% Change	September 30, 2015	September 30, 2014	$ Change	% Change
Selling, general and administrative	$2,145	$ 1,990	$155	8 %	$6,285	$ 5,852	$433	7 %
Percentage of revenue	35 %	33 %			36 %	34 %		

The increase in SG&A expenses for the three months ended September 30, 2015 compared to 2014 was attributable to the Information Infrastructure business, which increased overall SG&A expenses by $74 million, the VMware Virtual Infrastructure business, which increased overall SG&A expenses by $65 million and the Pivotal business, which increased overall SG&A expenses by $8 million. In addition, corporate reconciling items increased consolidated SG&A expenses by $8 million.

The increase in SG&A expenses for the nine months ended September 30, 2015 compared to 2014 was attributable to the Information Infrastructure business, which increased overall SG&A expenses by $203 million, the VMware Virtual Infrastructure business, which increased overall SG&A expenses by $171 million and the Pivotal business, which increased overall SG&A expenses by $23 million. In addition, the increase in corporate reconciling items increased consolidated SG&A expenses by $36 million.

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

The following table summarizes SG&A expenses within EMC's Information Infrastructure business for the three and nine months ended September 30, 2015 and 2014 (dollars in millions):

	Three Months Ended				Nine Months Ended			
	September 30, 2015	September 30, 2014	$ Change	% Change	September 30, 2015	September 30, 2014	$ Change	% Change
Selling, general and administrative	$1,220	$ 1,146	$74	6 %	$3,591	$ 3,388	$203	6 %
Percentage of revenue	28 %	26 %			28 %	26 %		

SG&A expenses within EMC's Information Infrastructure business increased for the three and nine months ended September 30, 2015 primarily due to personnel-related costs, which are expenses driven by incremental headcount from strategic hiring and business acquisitions. Personnel-related costs increased $60 million and $195 million and infrastructure cost increased $15 million and $14 million for the three and nine months ended September 30, 2015, respectively, primarily due to the consolidation of VCE, the acquisition of Virtustream and increased investments in our Emerging Storage business, partially offset by decreases in our traditional storage businesses. Partially offsetting the increase was a decrease in business development costs of $7 million and $9 million for the three and nine months ended September 30, 2015, respectively.

The following table summarizes SG&A expenses within the Pivotal business for the three and nine months ended September 30, 2015 and 2014 (dollars in millions):

	Three Months Ended				Nine Months Ended			
	September 30, 2015	September 30, 2014	$ Change	% Change	September 30, 2015	September 30, 2014	$ Change	% Change
Selling, general and administrative	$54	$ 46	$8	17 %	$156	$ 133	$23	17 %
Percentage of revenue	81 %	80 %			84 %	82 %		

SG&A expenses within the Pivotal business increased for the three and nine months ended September 30, 2015 primarily due to personnel-related costs, which are expenses driven by incremental headcount from strategic hiring and business acquisitions. Personnel-related costs increased by $6 million and $13 million for the three and nine months ended September 30, 2015, respectively, as the business continues to build out its go-to-market capabilities.

The following table summarizes SG&A expenses within the VMware Virtual Infrastructure business for the three and nine months ended September 30, 2015 and 2014 (dollars in millions):

	Three Months Ended				Nine Months Ended			
	September 30, 2015	September 30, 2014	$ Change	% Change	September 30, 2015	September 30, 2014	$ Change	% Change
Selling, general and administrative	$651	$ 586	$65	11 %	$1,896	$ 1,725	$171	10 %
Percentage of revenue	39 %	39 %			40 %	40 %		

SG&A expenses within the VMware Virtual Infrastructure business increased for the three and nine months ended September 30, 2015 primarily due to growth in personnel-related costs of $24 million and $90 million, respectively, due to organic growth in headcount and through the AirWatch acquisition, which was partially offset by the positive impact from fluctuations in the exchange rate between the U.S. dollar and foreign currencies. Additionally, charitable donations, infrastructure and business development costs increased during the three and nine months ended September 30, 2015.

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

The following table summarizes corporate reconciling items within SG&A expenses for the three and nine months ended September 30, 2015 and 2014 (dollars in millions):

	Three Months Ended				Nine Months Ended			
	September 30, 2015	September 30, 2014	$ Change	% Change	September 30, 2015	September 30, 2014	$ Change	% Change
Corporate reconciling items	$220	$ 212	$8	4 %	$642	$ 606	$36	6 %

Corporate reconciling items within SG&A, which consist of stock-based compensation, intangible asset amortization and acquisition and other related charges, increased for the three and nine months ended September 30, 2015, which was primarily due to an increase in stock-based compensation of $19 million and $23 million for the three and nine months ended September 30, 2015, respectively. The increase in corporate reconciling items for the nine months ended September 30, 2015 was due to an increase in acquisition and other related charges of $15 million, relating to the specified future employment conditions of AirWatch and DSSD employees.

Restructuring and Acquisition-Related Charges

In the second quarter of 2015, we initiated a cost reduction and business transformation program to better align our expenses and improve the operations of our federation of businesses. We expect to incur restructuring charges related to this program once the details are finalized and approved during the fourth quarter of 2015.

For the three and nine months ended September 30, 2015, we incurred restructuring and acquisition-related charges of $68 million and $226 million, respectively. For the three and nine months ended September 30, 2014, we incurred restructuring and acquisition-related charges of $39 million and $187 million, respectively. For the three and nine months ended September 30, 2015, EMC incurred $66 million and $200 million, respectively, of restructuring charges, primarily related to our current year restructuring programs, and $1 million and $4 million, respectively, of charges in connection with acquisitions for financial, advisory, legal and accounting services. For the nine months ended September 30, 2015, VMware incurred $20 million of restructuring charges, primarily related to its current year restructuring program. For the three and nine months ended September 30, 2015, VMware incurred $1 million and $2 million, respectively, of charges in connection with acquisitions for financial, advisory, legal and accounting services.

For the three and nine months ended September 30, 2014, EMC incurred $31 million and $175 million, respectively, of restructuring charges, primarily related to our 2014 restructuring programs, and during the three and nine months ended September 30, 2014, EMC incurred $2 million and $3 million, respectively, of charges in connection with acquisitions for financial, advisory, legal and accounting services. For the three and nine months ended September 30, 2014, VMware incurred $6 million and $4 million, respectively, of restructuring charges, primarily related to its 2014 restructuring programs. For the nine months ended September 30, 2014, VMware incurred $5 million of charges in connection with acquisitions for financial, advisory, legal and accounting services.

In the first, second and third quarters of 2015, EMC implemented restructuring programs to create further operational efficiencies which will result in workforce reductions of approximately 1,320, 160 and 680 positions, respectively. The actions will impact positions around the globe covering our Information Storage, RSA Information Security, Enterprise Content Division and Pivotal segments. All of these actions are expected to be completed within a year of the start of the program.

During 2014, EMC implemented restructuring programs to create further operational efficiencies which resulted in a workforce reduction of approximately 2,100 positions, of which 1,320, 210 and 240 positions were identified in the first, second and third quarters of 2014, respectively. The actions impacted positions around the globe covering our Information Storage, RSA Information Security and Enterprise Content Division segments. All of these actions were

completed within a year of the start of the program.

In the first quarter of 2015, VMware eliminated approximately 350 positions across all major functional groups and geographies to streamline its operations. All of these actions are expected to be completed within a year of the start of the program. During the third quarter of 2014, VMware eliminated approximately 90 positions across all major functional groups and geographies to streamline its operations.

For the three and nine months ended September 30, 2015, we recognized $5 million and $22 million, respectively, of lease termination costs for facilities vacated in the period in accordance with our plan as part of all of our restructuring programs and for costs associated with terminating other contractual obligations. For the three and nine months ended September 30, 2014, we

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recognized $2 million and $10 million, respectively, of lease termination costs for facilities vacated in the period in accordance with our plan as part of all of our restructuring programs and for costs associated with terminating other contractual obligations. These costs are expected to be utilized by the end of 2016.

Investment Income

Investment income was $25 million and $76 million for the three and nine months ended September 30, 2015, respectively. Investment income was $29 million and $100 million for the three and nine months ended September 30, 2014, respectively. Investment income decreased for both the three and nine months ended September 30, 2015 when compared to the same periods in 2014 primarily due to a decrease in net realized gains.

For the three and nine months ended September 30, 2015, interest income was $28 million and $79 million, respectively, and net realized losses were $4 million and $6 million, respectively. For the three and nine months ended September 30, 2014, interest income was $24 million and $76 million, respectively, and net realized gains were $3 million and $19 million, respectively.

Interest Expense

Interest expense was $41 million and $121 million for the three and nine months ended September 30, 2015, respectively. Interest expense was $40 million and $108 million for the three and nine months ended September 30, 2014, respectively. Interest expense during the three and nine months ended September 30, 2015 and 2014 consists primarily of interest on the $5.5 billion aggregate principal amount of senior notes (collectively, the “Notes”), which we issued in June 2013.

The increase in interest expense for the three and nine months ended September 30, 2015 when compared to the same periods in 2014 is due primarily to the amortization of interest rate swap losses of $17 million during the nine months ended September 30, 2015, compared to $6 million in the nine months ended September 30, 2014.

Other Income (Expense), Net

Other income, net was $22 million and $56 million for the three and nine months ended September 30, 2015, respectively. Other expense, net was $103 million and $245 million for the three and nine months ended September 30, 2014, respectively. Other income (expense), net primarily consists of net gains and losses on strategic investments and foreign exchange gains and losses. During 2014, other income (expense), net also included our consolidated share of the losses from our converged infrastructure joint venture, VCE Company LLC (“VCE”).

During the three months ended September 30, 2015, we recognized net gains from strategic investments of $16 million. During the nine months ended September 30, 2015, we recognized net gains from strategic investments of $66 million and foreign currency exchange gains of $7 million. These gains were partially offset by a fair value adjustment on an asset held for sale of $20 million for the nine months ended September 30, 2015.

During the three months ended September 30, 2014, we recognized net gains from strategic investments which were offset by foreign currency exchange losses. During the nine months ended September 30, 2014, we recognized net gains from strategic investments of $39 million. Included in the net gains on strategic investments during the nine months ended September 30, 2014 was a gain on previously held interests in strategic investments of $45 million and an impairment of a strategic investment of $33 million.

Prior to EMC’s acquisition of the controlling interest in VCE in December 2014, the VCE joint venture had been accounted for under the equity method and our consolidated share of VCE’s losses was based upon our portion of the overall funding. This represented our share of the net losses of the joint venture, net of equity accounting adjustments. During the three and nine months ended September 30, 2014, we incurred losses related to VCE of $101 million and $261 million, respectively.

Provision for Income Taxes

Our effective income tax rates were 24.1% and 23.9% for the three and nine months ended September 30, 2015, respectively. Our effective income tax rates were 24.7% and 24.0% for the three and nine months ended September 30, 2014, respectively. Our effective income tax rate is based upon estimated income before provision for income taxes for the year, composition of the income in different countries, and adjustments, if any, in the applicable

quarterly periods for potential tax consequences, benefits and/or resolutions of tax audits or other tax contingencies. For the three and nine months ended September 30, 2015, the effective income tax rate varied from the statutory income tax rate principally as a result of the mix of income attributable to foreign versus domestic jurisdictions and state taxes. Our aggregate income tax rate in foreign jurisdictions is lower than our income tax rate in the United States; substantially all of our income before provision for income taxes from foreign operations has been earned by our Irish

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subsidiaries. For the three and nine months ended September 30, 2014, the effective income tax rate varied from the statutory income tax rate principally as a result of the mix of income attributable to foreign versus domestic jurisdictions and state taxes. On December 19, 2014, the Tax Increase Prevention Act was signed into law. Some of the provisions were retroactive to January 1, 2014 including an extension of the U.S. federal tax credit for increasing research activities through December 31, 2014. Our effective income tax rates for the three and nine months ended September 30, 2015 and 2014 do not reflect any federal tax credit for increasing research activities.

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

We are routinely under audit by the Internal Revenue Service (the “IRS”). We have concluded all U.S. federal income tax matters for years through 2008. In the third quarter of 2012, the IRS commenced a federal income tax audit for the tax years 2009 and 2010, which is expected to be completed in late 2015. In the first quarter of 2015, the IRS commenced a federal income tax audit for the tax year 2011, which is still in the early stage for information gathering. We also have income tax audits in process in numerous state, local and international jurisdictions. In our international jurisdictions that comprise a significant portion of our operations, the years that may be examined vary, with the earliest year being 2005. Based on the timing and outcome of examinations of EMC, the result of the expiration of statutes of limitations for specific jurisdictions or the timing and result of ruling requests from taxing authorities, it is reasonably possible that the related unrecognized tax benefits could change from those recorded in our consolidated balance sheets. We anticipate that several of these audits may be finalized within the next twelve months. While we expect the amount of unrecognized tax benefits to change in the next twelve months, we do not expect the change to have a significant impact on our consolidated results of operations or financial position.

Our effective income tax rate for the remainder of 2015 may be affected by such factors as changes in tax laws, regulations or income tax rates, changing interpretation of existing laws or regulations, the impact of accounting for stock-based compensation, the impact of accounting for business combinations, changes in our international organization, and changes in overall levels of income before provision for income taxes. Our effective income tax rate may also be adversely affected by earnings being lower than anticipated in countries where we have lower statutory income tax rates and higher than anticipated in countries where we have higher statutory income tax rates.

Non-controlling Interest in VMware, Inc.

The net income attributable to the non-controlling interest in VMware was $48 million and $40 million for the three months ended September 30, 2015 and 2014, respectively, and was $120 million and $113 million for the nine months ended September 30, 2015 and 2014, respectively. The slight increase in the three and nine months ended September 30, 2015 compared to the same periods in 2014 was due to increases in VMware’s reported net income. VMware’s reported net income was $256 million and $194 million for the three months ended September 30, 2015 and 2014, respectively, and was $623 million and $560 million for the nine months ended September 30, 2015 and 2014, respectively. The weighted average non-controlling interest in VMware was approximately 19% for both the three and nine months ended September 30, 2015, and was approximately 20% for both the three and nine months ended September 30, 2014. EMC did not purchase any shares of VMware common stock during the three and nine months ended September 30, 2015.

Financial Condition

Proposed Transaction with Dell

On October 12, 2015, EMC and Denali signed a definitive Merger Agreement. 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 Parent, we 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. We do not believe these restrictions will prevent us from meeting our debt service obligations, ongoing costs of operations, working capital needs, or capital expenditure requirements for the next twelve months.

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Under the terms of the Merger Agreement, EMC may solicit alternative acquisition proposals from third parties until 11:59 p.m. on December 11, 2015. The Merger Agreement contains specified termination rights for both Parent and EMC, including that, in general, either party may terminate if the Merger is not consummated on or before December 16, 2016. If EMC terminates the Merger Agreement, we are required to pay Parent a termination fee of $2.5 billion (or, if EMC terminates for a superior proposal prior to December 12, 2015, the termination fee payable by EMC to Parent will be $2 billion).

Cash, Cash Equivalents and Investments

At September 30, 2015, our total cash, cash equivalents, and short-term and long-term investments were $14.3 billion. This balance includes approximately $7.2 billion held by VMware, of which $5.7 billion is held overseas and $1.5 billion is held in the U.S. and $7.1 billion held by EMC, of which $5.7 billion is held overseas and $1.4 billion is held in the U.S. If these overseas funds are needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

Under the terms of the Merger Agreement, EMC is required to provide Parent 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. If these overseas funds are required to be repatriated to the U.S. in accordance with the Merger Agreement, we may be required to accrue and pay U.S. taxes to repatriate these funds.

We expect that existing domestic cash and cash equivalents, together with any cash generated from operations, will be sufficient to meet normal operating requirements for the next twelve months. We expect to continue to generate positive cash flows from operations and to use cash generated by operations as a primary source of liquidity. Should we require more capital than is generated by our operations to fund discretionary activities, such as business acquisitions and share repurchases, we have the ability to raise capital through the issuance of commercial paper or by drawing on our credit facility at reasonable interest rates.

Cash Flow

The following table summarizes our cash flow activity for the nine months ended September 30, 2015 and 2014 (in millions):

	For the Nine Months Ended		
	September 30, 2015	September 30, 2014	$ Change
Cash provided by operating activities	$3,516	$4,292	$(776)
Cash used in investing activities	(3,050)	(2,606)	(444)
Cash used in financing activities	(1,346)	(3,438)	2,092
Effect of exchange rates on cash and cash equivalents	(139)	(84)	(55)
Net decrease in cash and cash equivalents	$(1,019)	$(1,836)	$817

Cash provided by operating activities consists primarily of cash collections from our customers somewhat offset by cash used for employee related expenditures, cash paid to suppliers for material and manufacturing costs and income tax payments.

The following table summarizes the primary drivers of the decrease in cash provided by operating activities for the nine months ended September 30, 2015 and 2014 (in millions):

	For the Nine Months Ended		
	September 30, 2015	September 30, 2014	$ Change
Cash received from customers	$19,375	$19,005	$370
Cash paid to suppliers and employees	(14,894)	(13,868)	(1,026)
Income taxes paid	(995)	(897)	(98)

Net cash provided by operating activities decreased by $776 million to $3,516 million for the nine months ended September 30, 2015 compared to the same period in 2014 primarily due to an increase in cash paid to suppliers and employees due to general growth in the business to support the increased revenue base as well as income tax payments, which are comprised of estimated taxes for the current year, extension payments for the prior year and refunds or payments associated with income tax filings and

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tax audits, and which increased primarily due to higher pre-tax income in 2014 compared to 2013. These were partially offset by an increase in cash received from customers, attributable to an increase in sales volume.

Cash used in investing activities consists primarily of the timing of purchases, sales and maturities of our investments in available-for-sale securities, business acquisitions and the purchase of capital and other assets.

The following table summarizes the primary drivers of the increase in cash used in investing activities for the nine months ended September 30, 2015 and 2014 (in millions):

	For the Nine Months Ended		
	September 30, 2015	September 30, 2014	$ Change
Net (purchases) sales of available-for-sale securities	$(699)	$542	$(1,241)
Business acquisitions, net of cash acquired	(1,304)	(1,771)	467

Net cash used in investing activities decreased by $444 million to $3,050 million for the nine months ended September 30, 2015 compared to the same period in 2014 primarily due to a decrease in cash spent on business acquisitions, partially offset by an increase in cash used in the net purchases and sales of available-for-sale securities. Acquisition activity varies from period to period based upon the number and size of acquisitions in a given period. During 2014, EMC had significant acquisition activity and VMware spent $1,068 million on the AirWatch acquisition. During the third quarter of 2015, EMC paid $1,219 million in net cash to acquire Virtustream. The net purchase and sales of available-for-sale securities varies from period to period based upon our cash collections, cash requirements and maturity dates of our investments as well as cash available after the issuance and payment of debt.

Cash used in financing activities consists primarily of net proceeds or payments from the issuance or repayment of short-term and long-term debt as well as proceeds from the issuance of common stock, stock repurchases and dividend payments.

The following table summarizes the primary drivers of the decrease in cash used in financing activities for the nine months ended September 30, 2015 and 2014 (in millions):

	For the Nine Months Ended		
	September 30, 2015	September 30, 2014	$ Change
Repurchase of EMC and VMware common stock	$(3,113)	$(1,824)	$(1,289)
Payment of long-term obligations	—	(1,665)	1,665
Net proceeds from the issuance of short-term obligations	1,968	—	1,968

Net cash used in financing activities decreased by $2,092 million to $1,346 million for the nine months ended September 30, 2015 compared to the same period in 2014 primarily due to cash inflows related to the net proceeds from the issuance of Commercial Paper in 2015 and cash outflows related to the repayment of convertible debt in 2014. These were partially offset by an increase in cash spent on EMC and VMware stock repurchases during 2015. During the nine months ended September 30, 2015 and 2014, we continued to return value to shareholders by spending cash to repurchase shares as part of our greater capital allocation strategy.

Share Repurchase

During the nine months ended September 30, 2015 and 2014, we spent $2,063 million and $1,374 million, respectively, to repurchase 76 million and 52 million shares of our common stock, and VMware spent $1,050 million

and $450 million, respectively, to repurchase 13 million and 5 million shares of their common stock.

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Dividends

Our Board of Directors declared the following dividends during 2015 and 2014:

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

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 September 30, 2015, we were in compliance with required covenants and we had not borrowed any funds under the credit facility. At November 6, 2015, we had $600 million borrowed under the credit facility.

On March 23, 2015, we established a short-term debt financing program whereby we may issue short-term unsecured commercial paper notes (“Commercial Paper”). Amounts available under the program may be borrowed, repaid and re-borrowed from time to time, with the aggregate face or principal amount of the notes outstanding at any time not to exceed $2.5 billion. The Commercial Paper will have maturities of up to 397 days from the date of issue. The net proceeds from the issuance of the Commercial Paper are expected to be used for general corporate purposes. As of September 30, 2015, we were in compliance with customary required covenants. At September 30, 2015, we had 1,970 million of Commercial Paper outstanding. At November 6, 2015, we had $1,565 million of Commercial Paper outstanding.

Long-Term Debt

In June 2013, we issued $5.5 billion aggregate principal amount of senior 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 $1.725 billion 1.75% convertible senior notes due

2013 Notes (“2013 Notes”) as well as for general corporate purposes including stock repurchases, business acquisitions, dividend payments, working capital needs and other business opportunities. The Notes of each series are senior, unsecured obligations of EMC and are not convertible or exchangeable. Unless previously purchased and canceled, we will repay the Notes of each series at 100% of the principal amount, together with accrued and unpaid interest thereon, at maturity. However, EMC has the right to redeem any or all of the Notes at specified redemption prices. As of September 30, 2015, we were in compliance with all debt covenants, which are customary in nature.

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

Convertible Debt

In November 2006, we issued $1.725 billion 1.75% convertible senior notes due 2013. 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.
In connection with the issuance of the 2013 Notes, we entered into separate convertible note hedge transactions with respect to our common stock (the “Purchased Options”). The Purchased Options allowed us to receive shares of our common stock and/or cash related to the excess conversion value that we would pay to the holders of the 2013 Notes upon conversion. We exercised 108 million of the purchased options in conjunction with the planned settlements of the 2013 Notes and received 35 million shares of net settlement on January 7, 2014, representing the excess conversion value of the options.

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

The Purchased Options and associated warrants had the effect of increasing the conversion price of the 2013 Notes to approximately $19.31 per share of our common stock, representing an approximate 53% conversion premium based on the closing price of $12.61 per share of our common stock on November 13, 2006, which was the issuance date of the 2013 Notes.
Use of Non-GAAP Financial Measures and Reconciliations to GAAP Results

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). EMC uses certain non-GAAP financial measures, which exclude stock-based compensation, intangible asset amortization, restructuring charges, acquisition and other related charges, infrequently occurring gains, losses, benefits and charges, and special tax items to measure its revenues, gross margin, operating margin, net income and diluted earnings per share for purposes of managing our business. EMC also assesses its financial performance by measuring its free cash flow which is also a non-GAAP financial measure. Free cash flow is defined as net cash provided by operating activities, less additions to property, plant and equipment and capitalized software development costs. These non-GAAP financial measures should be considered in addition to, not as a substitute for, measures of EMC’s financial performance or liquidity prepared in accordance with GAAP. EMC’s non-GAAP financial measures may be defined differently from time to time and may be defined differently than similar terms used by other companies, and accordingly, care should be exercised in understanding how EMC defines its non-GAAP financial measures.

EMC's management uses the non-GAAP financial measures to gain an understanding of EMC's comparative operating performance (when comparing such results with previous periods or forecasts) and future prospects and excludes these items from its internal financial statements for purposes of its internal budgets and each reporting segment's financial goals. These non-GAAP financial measures are used by EMC's management in their financial and operating decision-making because management believes they reflect EMC's ongoing business in a manner that allows meaningful period-to-period comparisons. EMC's management believes that these non-GAAP financial measures provide useful information to investors and others (a) in understanding and evaluating EMC's current operating performance and future prospects in the same manner as management does, if they so choose, and (b) in comparing in a consistent manner EMC's current financial results with EMC's past financial results.

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

Our non-GAAP operating results for the three months ended September 30, 2015 and 2014 were as follows (in millions):

	For the Three Months Ended			
	September 30, 2015		September 30, 2014	
Gross margin	$3,806		$3,842	
Gross margin percentage	62.6	%	63.7	%
Operating income	1,182		1,396	
Operating margin percentage	19.4	%	23.1	%
Income tax provision	274		306	
Net income attributable to EMC	837		903	
Diluted earnings per share attributable to EMC	$0.43		$0.44	

The decrease in non-GAAP gross margin for the period was attributable to lower sales volume and higher costs of revenue in Information Storage, partially offset by higher sales volume in VMware Virtual Infrastructure. The decrease in non-GAAP gross margin percentage for the three months ended September 30, 2015 was primarily attributable to a decrease in Information Storage gross margins. Information Storage gross margins decreased year over year primarily due to decreases in product margins resulting from the consolidation of VCE and foreign currency impacts to revenue that do not impact costs in the same manner, as our costs of sales tend to have less exposure to currency volatility. These decreases were partially offset by an increase in the mix of services revenues which have higher gross margins.

The decrease in the non-GAAP operating income for the three months ended September 30, 2015 was primarily attributable to an increase in EMC Information Infrastructure operating expenses resulting from the consolidation of VCE. Non-GAAP operating margin percentage decreased for the three months ended September 30, 2015 primarily due to a decrease in gross margin percentage and a decrease in operating margin driven by the consolidation of VCE.

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

The reconciliation of the above financial measures from GAAP to non-GAAP is as follows (in millions):

	For the Three Months Ended September 30, 2015				
	Gross margin	Operating income	Income tax provision (benefit)	Net income attributable to EMC	Diluted Earnings per share attributable to EMC
GAAP	$3,705	$690	$168	$480	$0.25
Stock-based compensation expense	39	282	65	198	0.10
Intangible asset amortization	62	100	28	67	0.03
Restructuring charges	—	66	11	55	0.03
Acquisition and other related charges	—	44	14	26	0.01
R&D tax credit	—	—	(12)	11	0.01
Non-GAAP	$3,806	$1,182	$274	$837	$0.43

	For the Three Months Ended September 30, 2014				
	Gross margin	Operating income	Income tax provision (benefit)	Net income attributable to EMC	Diluted Earnings per share attributable to EMC
GAAP	$3,743	$947	$206	$587	$0.28
Stock-based compensation expense	37	255	60	174	0.09
Intangible asset amortization	62	102	30	67	0.03
Restructuring charges	—	37	9	27	0.01
Acquisition and other related charges	—	55	15	35	0.02
R&D tax credit	—	—	(12)	11	0.01
VMware litigation and other contingencies	—	—	(2)	2	—
Non-GAAP	$3,842	$1,396	$306	$903	$0.44

We also monitor our ability to generate free cash flow in relationship to our non-GAAP net income attributable to EMC over comparable periods. For the three months ended September 30, 2015, our free cash flow was $1,033 million, a decrease of 23% compared to the free cash flow generated for the three months ended September 30, 2014. For the nine months ended September 30, 2015, our free cash flow was $2,434 million, a decrease of 24% compared to the free cash flow generated for the nine months ended September 30, 2014. EMC uses free cash flow, among other measures, to evaluate the ability of its operations to generate cash that is available for purposes other than capital expenditures and capitalized software development costs. Management believes that information regarding free cash flow provides investors with an important perspective on the cash available to make strategic acquisitions and investments, repurchase shares, service and issue debt, pay dividends and fund ongoing operations. As free cash flow is not a measure of liquidity calculated in accordance with GAAP, free cash flow should be considered in addition to, but not as a substitute for, the analysis provided in the statements of cash flows.

The reconciliation of the above free cash flow from GAAP to non-GAAP is as follows (in millions):

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Cash Flow from Operations	$1,403	$ 1,701	$3,516	$ 4,292

Capital expenditures	(222)	(222)	(671)	(693)
Capitalized software development costs	(148)	(137)	(411)	(382)
Free Cash Flow	$1,033	$ 1,342	$2,434	$ 3,217

Free cash flow represents a non-GAAP measure related to operating cash flows. In contrast, our GAAP measure of cash flow consists of three components. These are cash flows provided by operating activities of $3,516 million and $4,292 million for the nine months ended September 30, 2015 and 2014, respectively, cash used in investing activities of $3,050 million and $2,606

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

million for the nine months ended September 30, 2015 and 2014, respectively, and net cash used in financing activities of $1,346 million and $3,438 million for the nine months ended September 30, 2015 and 2014, respectively.

All of the foregoing non-GAAP financial measures have limitations. Specifically, the non-GAAP financial measures that exclude the items noted above do not include all items of income and expense that affect EMC’s operations or cash flows. Further, these non-GAAP financial measures are not prepared in accordance with GAAP, may not be comparable to non-GAAP financial measures used by other companies and do not reflect any benefit that such items may confer on EMC. Management compensates for these limitations by also considering EMC’s financial results as determined in accordance with GAAP.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For quantitative and qualitative disclosures about market risk affecting us, see Item 7A “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K filed with the SEC on February 27, 2015. Our exposure to market risks has not changed materially from that set forth in our Annual Report.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective.

Changes in Internal Control Over Financial Reporting. There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II
OTHER INFORMATION
Item 1. LEGAL PROCEEDINGS

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.

As of November 6, 2015, eleven lawsuits challenging the Merger have been filed purportedly on behalf of Company shareholders, of which eight were filed (or are now pending) in the Business Litigation Session of the Suffolk County Superior Court in Massachusetts, one was filed in the Middlesex County Superior Court in Massachusetts, and two were filed in the United States District Court for the District of Massachusetts.

All of the lawsuits are purported shareholder class actions advancing substantially the same allegations that the Merger Agreement was adopted in violation of the fiduciary duties of the Company's directors and seeking injunctive relief to enjoin the merger, as well as other remedies. Certain of the lawsuits also allege that the Company, Denali Holding Inc., Dell Inc., Universal Acquisition Co., Silver Lake Partners, LLC, and/or MSD Partners, LLC aided and abetted the alleged breaches of fiduciary duty by the directors.

On October 23, 2015, the Company and its directors served a motion to consolidate all of the lawsuits then pending in state court in Massachusetts with and into the first-filed of those actions, IBEW Local No. 129 Benefit Fund v. Joseph M. Tucci, et al. That action names as defendants the Company and each member of its Board of Directors (as constituted as of October 12, 2015), Denali Holding Inc., Dell Inc., and Universal Acquisition Co.

On October 27, 2015, the Company and its directors served a motion 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 November 5, 2015, the Company and its directors filed motions (i) to stay or dismiss the actions pending in the United States District Court for the District of Massachusetts on the ground that those actions are duplicative of the actions pending in state court in Massachusetts; and (ii) to dismiss those same actions pursuant to Rule 12(b)(1) of the Federal Rules of Civil Procedure on the ground that the complaints in those actions fail to allege a basis for the federal court's subject matter jurisdiction.

No defendant has yet filed a responsive pleading in the other lawsuits.

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.

Item 1A. RISK FACTORS

The risk factors that appear below could materially affect our business, financial condition and results of operations. This description includes any material changes to and supersedes the description of the risk factors associated with our business previously disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014. The risks and uncertainties described below are not the only risks and uncertainties facing us. Our business is also subject to general risks and uncertainties that affect many other companies.

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The announcement and pendency of the Dell transaction may adversely affect our business.

Uncertainty about the effect of the proposed merger on our employees, customers, and other parties may have an adverse effect on our business. Such uncertainty may impair our ability to attract, retain, and motivate our employees, including key personnel and could cause customers, suppliers, and others to seek to change existing business relationships or delay or defer certain business decisions with us.

Pursuant to the terms of the merger agreement, we are subject to certain restrictions on the conduct of our business, including the ability in certain cases to enter into contracts, acquire or dispose of assets, incur indebtedness or incur capital expenditures, until the proposed merger closes or the merger agreement terminates. The restrictions may prevent us from pursuing otherwise attractive business opportunities and taking other actions with respect to our business that we may consider advantageous, and our business and operations could be negatively affected by such limitations.

We have incurred, and will continue to incur, significant costs, expenses, and fees for professional services and other transaction costs in connection with the proposed merger. We will be required to pay such costs relating to the transaction whether or not the merger is completed.

Failure to consummate the Dell transaction could have a material adverse impact on our business and financial results.

There can be no assurance that the proposed merger with Denali will occur. Consummation of the merger is subject to certain conditions, including, among others, (i) approval by our shareholders; (ii) the absence of an order or law prohibiting consummation of the merger; (iii) the expiration or termination of the waiting period under the HSR Act and the receipt of consents under other specified antitrust laws; (iv) the absence of a material adverse effect on us; (v) the accuracy of the parties' respective representations and warranties; and (vi) the parties' respective compliance with agreements and covenants contained in the Merger Agreement. There can be no assurance that these and other conditions to closing will be satisfied. In addition, the closing may not occur if the required financing for the transaction is unavailable or delayed.

The Merger Agreement also contains certain termination rights for both us and Denali, and in certain specified circumstances upon termination of the Merger Agreement, including a termination by us to enter into an agreement for a superior proposal, we will be required to pay Denali a termination fee. This payment could affect the structure, pricing and terms proposed by a third party seeking to acquire or merge with us and could deter such third party from making a competing acquisition proposal.

The Merger Agreement provides for limited remedies for us in the event of a breach by Dell or its affiliates, including the right to a reverse termination fee payable under certain specified circumstances. There can be no assurance that a remedy will be available to us in the event of a breach or that any damages incurred by us in connection with the merger will not exceed the amount of the reverse termination fee. A failed transaction may result in negative publicity and a negative impression of us in the investment community. Further, any disruptions to our business resulting from the announcement and pendency of the merger, including any adverse changes in our relationships with our customers, partners and employees, could continue or accelerate in the event of a failed transaction. In addition, if the merger is not completed, the share price of our common stock may change to the extent that the current market price of our common stock reflects an assumption that the merger will be completed.

We may be unable to keep pace with rapid industry, technological and market changes.

The markets in which we compete are characterized by rapid technological change, frequent new product introductions, evolving industry standards and changing needs of customers. In addition, our industry is experiencing one of the most disruptive periods of transition in its history as we move from IT solutions built for the client-server second platform into the next phase of IT growth and innovation, or the third platform. There can be no assurance that our existing products will be properly positioned in the third platform or that we will be able to introduce new or enhanced products into the market on a timely basis, or at all. We spend a considerable amount of money on research and development and introduce new products from time to time. There can be no assurance that enhancements to existing products and solutions or new products and solutions will receive customer acceptance. As competition in the IT industry increases, it may become increasingly difficult for us to maintain a technological advantage and to leverage that advantage toward increased revenues and profits. In addition, there can be no assurance that our vision of enabling hybrid cloud computing, Big Data and trust through infrastructure and application transformation will be accepted or validated in the marketplace.

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Risks associated with the development and introduction of new products include delays in development and changes in data storage, networking virtualization, infrastructure management, information security and operating system technologies which could require us to modify existing products. Risks inherent in the transition to new products include:

- the difficulty in forecasting customer preferences or demand accurately;
- the inability to expand production capacity to meet demand for new products;
- the inability to successfully manage the interoperability and transition from older products;
- the impact of customers' demand for new products on the products being replaced, thereby causing a decline in sales of existing products and an excessive, obsolete supply of inventory;
- delays in initial shipments of new products; and
- delays in sales caused by the desire of customers to evaluate new products for extended periods of time.

Further risks inherent in new product introductions include the uncertainty of price-performance relative to products of competitors and competitors' responses to such new product introductions. Our failure to introduce new or enhanced products on a timely basis, keep pace with rapid industry, technological or market changes or effectively manage the transition to new products or new technologies could have a material adverse effect on our business, results of operations or financial condition.

The markets we serve are highly competitive, and we may be unable to compete effectively.

We compete with many companies in the markets we serve. Some of our competitors offer a broad spectrum of IT products and services, and others offer specific information storage, protection, security, management, virtualization and intelligence products or services. Some of our competitors (whether independently or by establishing alliances) may have substantially greater financial, marketing or technological resources, larger distribution capabilities, earlier access to customers or greater opportunity to address customers' various IT requirements than us. In addition, through further consolidation in the IT industry, companies may improve their competitive position and ability to compete against us. We compete on the basis of our products' features, performance and price as well as our services. Our failure to compete on any of these bases could affect demand for our products or services, which could have a material adverse effect on our business, results of operations or financial condition.

Companies may develop new technologies or products in advance of us or establish business models or technologies disruptive to us. Our business may be materially adversely affected by the announcement or introduction of new products, including hardware and software products, and new services offered by our competitors, and the implementation of effective marketing or sales strategies by our competitors. The material adverse effect to our business could include a decrease in demand for our products and services and an increase in the length of our sales cycle due to customers taking longer to compare products and services and to complete their purchases.

We may have difficulty managing operations.

Our future operating results will depend on our overall ability to manage operations, which includes, among other things:

- successfully communicating and executing on our unique federation strategy;
- retaining and hiring the appropriate number of qualified employees;
- managing, protecting and enhancing, as appropriate, our infrastructure, including but not limited to, our information systems (and our ability to protect confidential information residing on such systems) and internal controls;
- accurately forecasting revenues;
- training our sales force to sell effectively, given the breadth of our offerings;
- successfully integrating new acquisitions;

- managing inventory levels, including minimizing excess and obsolete inventory, while maintaining sufficient inventory to meet customer demands;
- controlling expenses;
- managing our manufacturing capacity, real estate facilities and other assets;
- meeting our sustainability goals; and
- executing on our plans.

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An unexpected decline in revenues without a corresponding and timely reduction in expenses or a failure to manage other aspects of our operations could have a material adverse effect on our business, results of operations or financial condition.

Our business could be materially adversely affected as a result of a lessening demand in the information technology market.

Our revenue and profitability depend on the overall demand for our products and services. Delays or reductions in IT spending could materially adversely affect demand for our products and services which could result in decreased revenues or earnings.

Our customers operate in a variety of sectors and across many geographies. Any adverse effects to such markets could materially adversely affect demand for our products and services which could result in decreased revenues or earnings.

Pricing pressures, increases in component and product design costs, decreases in sales volume, or changes to the relative mixture of our revenues could materially adversely affect our revenues, gross margins or earnings.

Our gross margins are impacted by a variety of factors, including competitive pricing, component and product design costs, sales volume and the relative mixture of product and services revenue. Increased component costs, increased pricing pressures, the relative and varying rates of increases or decreases in component costs and product price, changes in our product and services revenue mixture, including the mixture of subscription based product revenue, or decreased sales volume could have a material adverse effect on our revenues, gross margins or earnings.

The costs of third-party components comprise a significant portion of our product costs. We may have difficulty managing our component and product design costs if supplies of certain components become limited or component prices increase. Any such limitation could result in an increase in our component costs. An increase in component or design costs relative to our product prices could have a material adverse effect on our gross margins and earnings. Moreover, certain competitors may have advantages with respect to component costs due to vertical integration of their supply chain, which may include disk drives, microprocessors, memory components and servers.

The markets in which we do business are highly competitive, and we may encounter aggressive price competition for all of our products and services from numerous companies globally. There also has been, and may continue to be, a willingness on the part of certain competitors to reduce prices or provide information infrastructure and virtual infrastructure products or services, together with other IT products or services, at minimal or no additional cost in order to preserve or gain market share. Such price competition may result in pressure on our product and service prices, and reductions in product and service prices may have a material adverse effect on our revenues, gross margins or earnings.

Our financial performance is impacted by the financial performance of VMware.

Because we consolidate VMware’s financial results in our results of operations, our financial performance is impacted by the financial performance of VMware. VMware’s financial performance may be affected by a number of factors, including, but not limited to:

- general economic conditions in its domestic and international markets and the effect that these conditions have on VMware’s customers’ capital budgets and the availability of funding for software purchases;
- fluctuations in demand, adoption rates, sales cycles (which have been increasing in length) and pricing levels for VMware’s products and services;

- fluctuations in foreign currency exchange rates;
- changes in customers' budgets for information technology purchases and in the timing of their purchasing decisions;
- the timing of recognizing revenues in any given quarter, which, as a result of software revenue recognition policies, can be affected by a number of factors, including product announcements, beta programs and product promotions that can cause revenue recognition of certain orders to be deferred until future products to which customers are entitled become available;
- the sale of VMware's products and services in the time frames anticipated, including the number and size of orders in each quarter;
- the ability of VMware to develop, introduce and ship in a timely manner new products, new services and enhancements that meet customer demand, certification requirements and technical requirements;
- VMware's ability to compete effectively;

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- the introduction of new pricing and packaging models for VMware's product offerings;
- the timing of the announcement or release of upgrades or new products and services by VMware or by their competitors;
- VMware's ability to maintain scalable internal systems for reporting, order processing, license fulfillment, product delivery, purchasing, billing and general accounting, among other functions;
- VMware's ability to control costs, including its operating expenses;
- changes to VMware's effective tax rate;
- the increasing scale of VMware's business and its effect on VMware's ability to maintain historical rates of growth;
- VMware's ability to attract and retain highly skilled employees, particularly those with relevant experience in software development and sales;
- VMware's ability to conform to emerging industry standards and to technological developments by its competitors and customers;
- seasonal factors such as the end of fiscal period budget expenditures by VMware's customers and the timing of holiday and vacation periods;
- renewal rates and the amounts of the renewals for enterprise agreements, or EA's, as original EA terms expire;
- the timing and amount of software development costs that may be capitalized by VMware beginning when technological feasibility has been established and ending when the product is available for general release;
- unplanned events that could affect market perception of the quality or cost-effectiveness of VMware's products and solutions;
- VMware's ability to accurately predict the degree to which customers will elect to purchase its subscription-based offerings in place of licenses to its on-premises offerings; and
- the recoverability by VMware of benefits from goodwill and acquired intangible assets, and the potential impairment of these assets.

We may become involved in litigation that may materially adversely affect us.

We are involved in various legal proceedings in connection with our proposed merger. From time to time, we may also become involved in various legal proceedings relating to matters incidental to the ordinary course of our business, including patent, commercial, product liability, employment, class action, whistleblower and other litigation and claims, and governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources and cause us to incur significant expenses. Furthermore, because litigation is inherently unpredictable, there can be no assurance that the results of any of these actions will not have a material adverse effect on our business, results of operations or financial condition.

Cybersecurity breaches could expose us to liability, damage our reputation, compromise our ability to conduct business, require us to incur significant costs or otherwise adversely affect our financial results.

We retain sensitive data, including intellectual property, proprietary business information and personally identifiable information, in our secure data centers and on our networks. We face a number of threats to our data centers and networks of unauthorized access, including security breaches and other system disruptions. It is critical to our business strategy that our infrastructure remains secure and is perceived by our customers and business partners to be secure. Despite our security measures, our infrastructure may be vulnerable to attacks by hackers or other disruptive problems, such as the sophisticated cyber attack on our RSA division that we disclosed in March 2011. Any such security breach may compromise information stored on our networks and may result in significant data losses or theft of our, our customers', our business partners' or our employees' intellectual property, proprietary business information or personally identifiable information. In addition, we have outsourced a number of our business functions to third party contractors, and any breach of their security systems could adversely affect us.

A cybersecurity breach could negatively affect our reputation as a trusted provider of information infrastructure by adversely affecting the market's perception of the security or reliability of our products or services. In addition, a cyber attack could result in other negative consequences, including remediation costs, disruption of internal operations, increased cybersecurity protection costs, lost revenues or litigation.

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Our quarterly revenues or earnings could be materially adversely affected by uneven sales patterns or changing purchasing behaviors.

Our quarterly sales have historically reflected an uneven pattern in which a disproportionate percentage of a quarter's total sales occur in the last month and weeks and days of each quarter. This uneven sales pattern makes it difficult for us to accurately predict revenues, earnings and working capital for each financial period and increases the risk of unanticipated variations in our quarterly results and financial condition. We believe this uneven sales pattern is a result of many factors, including:

- the relative dollar amount of our product and services offerings in relation to many of our customers' budgets, resulting in long lead times for customers' budgetary approval, which tends to be given late in a quarter;
- the tendency of customers to wait until late in a quarter to commit to purchase in the hope of obtaining more favorable pricing from one or more competitors seeking their business;
- the fourth-quarter influence of customers spending their remaining capital budget authorization prior to new budget constraints in the first nine months of the following year; and
- seasonal influences.

Our uneven sales pattern makes it extremely difficult to predict near-term demand and adjust manufacturing capacity or our supply chain accordingly. Our backlog at any particular time is also not necessarily indicative of future sales levels. This is because:

- we assemble our products on the basis of our forecast of near-term demand and maintain inventory in advance of receipt of firm orders from customers;
- we generally ship products shortly after receipt of the order; and
- customers may generally reschedule or cancel orders with little or no penalty.

If predicted demand is substantially greater than orders, we will have excess inventory. Alternatively, if orders substantially exceed predicted demand, our ability to assemble, test and ship orders received in the last weeks and days of each quarter may be limited. This could materially adversely affect quarterly revenues or earnings as our revenues in any quarter are substantially dependent on orders booked and shipped in that quarter.

Loss of infrastructure, due to factors such as an information systems failure, loss of public utilities, natural disasters or extreme weather conditions, could also impact our ability to book orders or ship products in a timely manner. Delays in product shipping or an unexpected decline in revenues without a corresponding and timely slowdown in expenses, could intensify the impact of these factors on our business, results of operations or financial condition.

In addition, unanticipated changes in our customers' purchasing behaviors, such as customers taking longer to negotiate and complete their purchases or making smaller, incremental purchases based on their current needs, can also make it difficult for us to accurately predict revenues, earnings and working capital for each financial period and increase the risk of unanticipated variations in our quarterly results and financial condition.

Our business could be materially adversely affected as a result of general global economic and market conditions.

We are subject to the effects of general global economic and market conditions that are beyond our control. If these conditions remain challenging or worsen, our business, results of operations or financial condition could be materially adversely affected. Possible consequences of macroeconomic global challenges that could have a material adverse effect on our results of operations or financial condition include insolvency of key suppliers resulting in product delays, inability of customers to obtain credit to finance purchases of our products, customer insolvencies, increased risk that customers may delay payments, fail to pay or default on credit extended to them, and counterparty failures

that negatively impact our treasury operations.

Our business may suffer if we are unable to retain or attract key personnel.

Our business depends to a significant extent on the continued service of senior management and other key employees, the development of additional management personnel and the hiring of new qualified employees. There can be no assurance that we will be successful in retaining and developing existing personnel or recruiting new personnel. The loss of one or more key employees, our inability to attract or develop additional qualified employees or any delay in hiring key personnel could have a material adverse effect on our business, results of operations or financial condition.

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Undetected problems in our products could directly impair our financial results.

If flaws in design, production, assembly or testing of our products (by us or our suppliers) were to occur, we could experience a rate of failure in our products that would result in substantial delays in shipment, significant repair, replacement or service costs or potential damage to our reputation. Any of these results could have a material adverse effect on our business, results of operations or financial condition. Continued improvement in manufacturing capabilities, control of material and manufacturing quality and costs and product testing are critical factors in our future growth. However, there can be no assurance that our efforts to monitor, develop, modify and implement appropriate testing and manufacturing processes for our products will be sufficient to avoid a rate of failure in our products that could otherwise have a material adverse effect on our business, results of operations or financial condition.

Our stock price is volatile and may be affected by factors related to VMware.

Our stock price, like that of other technology companies, is subject to significant volatility because of factors such as:
- the announcement of acquisitions, new products, services or technological innovations by us or our competitors;
- quarterly variations in our operating results;
- changes in revenue or earnings estimates by the investment community; and
- speculation in the press or investment community.

The trading price of our common stock has been and likely will continue to be affected by various factors related to VMware, including:
- the trading price for VMware Class A common stock;
- actions taken or statements made by us, VMware, or others concerning our relationship with VMware; and
- factors impacting the performance of VMware, including those discussed in the risk factor above regarding the impact of VMware's financial performance on our financial performance.

In addition, although we own a majority of VMware and consolidate its financial results in our results of operations, our stock price may not accurately reflect our pro rata ownership interest of VMware.

Due to the global nature of our business, political, economic or regulatory changes or other factors in a specific country or region could impair our international operations, future revenue or financial condition.

A substantial portion of our revenues is derived from sales outside the United States including, increasingly, in rapid growth markets such as Brazil, Russia, India and China. In addition, a substantial portion of our products is manufactured outside of the United States. Accordingly, our future results could be materially adversely affected by a variety of factors relating to our operations outside the United States, including, among others, the following:
- changes in foreign currency exchange rates;
- changes in a specific country's or region's economic conditions;
- political or social unrest;
- trade restrictions;
- import or export licensing requirements;
- the overlap of different tax structures or changes in international tax laws;
- changes in regulatory requirements;
- difficulties in staffing and managing international operations;
- stringent privacy policies in some foreign countries;
- compliance with a variety of foreign laws and regulations; and

longer payment cycles in certain countries.

Our foreign operations, particularly in those countries with developing economies, are also subject to laws prohibiting improper payments and bribery, including the U.S. Foreign Corrupt Practices Act and similar regulations in foreign jurisdictions. Our

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employees, contractors and agents may take actions in violation of our policies that are designed to ensure compliance with these laws. Any such violations could subject us to civil or criminal penalties or otherwise have an adverse effect on our business and reputation.

In addition, we hold a significant portion of our cash and investments in our international subsidiaries. Potential regulations could impact our ability to transfer this cash and these investments to the United States. Although the international cash is permanently reinvested, should we be required to repatriate cash, we may incur a significant tax obligation.

We operate a Venezuelan sales subsidiary with a U.S. dollar functional currency. As a result, Bolivar-denominated transactions are subject to exchange gains and losses that may impact our earnings. As of quarter end, three exchange rates are available, via legal mechanisms administered by the Venezuelan government, to convert Bolivars into U.S. dollars. These three mechanisms are CENCOEX (official exchange rate), SICAD I and Simadi (formerly known as SICAD II). We have continued to use CENCOEX to remeasure these balances based upon the expected rate at which we believe is most appropriate for these items to be settled. We are closely monitoring information concerning these rates in the event it becomes appropriate to adopt a rate other than CENCOEX. Changing the rate used to re-measure our Bolivar-denominated transactions to either the SICAD I or Simadi rates could have an adverse effect on our financial position, results of operations or cash flows.

If our suppliers are not able to meet our requirements, we could have decreased revenues and earnings.

We purchase or license many sophisticated components and products from one or a limited number of qualified suppliers, including some of our competitors. These components and products include flash drives, disk drives, high density memory components, power supplies and software developed and maintained by third parties. We have experienced delivery delays from time to time because of high industry demand or the inability of some vendors to consistently meet our quality or delivery requirements. Natural disasters have also in the past impacted, and may continue to impact, our ability to procure certain components in a timely fashion, and an economic crisis could also negatively affect the solvency of our suppliers, resulting in product delays. Current or future social and environmental regulations or issues, such as those relating to the sourcing of conflict minerals from the Democratic Republic of the Congo or the elimination of environmentally sensitive materials from our products, could restrict the supply of resources used in production or increase our costs. If any of our suppliers were to cancel or materially change contracts or commitments with us or fail to meet the quality or delivery requirements needed to satisfy customer orders for our products, we could lose time-sensitive customer orders, be unable to develop or sell certain products cost-effectively or on a timely basis, if at all, and have significantly decreased quarterly revenues and earnings, which would have a material adverse effect on our business, results of operations or financial condition. Additionally, we periodically transition our product line to incorporate new technologies. The importance of transitioning our customers smoothly to such new technologies, along with our historically uneven pattern of quarterly sales (as discussed in a prior risk factor), intensifies the risk that the failure of a supplier to meet our quality or delivery requirements will have a material adverse impact on our revenues and earnings.

Our investment portfolio could experience a decline in market value which could adversely affect our financial results.

We held $9.0 billion in short- and long-term investments as of September 30, 2015. These investments consist primarily of investment grade debt securities, and we limit the amount of investment with any one issuer. A further deterioration in the economy, including a tightening of credit markets, increased defaults by issuers, or significant volatility in interest rates, could cause these investments to decline in value or could otherwise impact the liquidity of our portfolio. If market conditions deteriorate significantly, our results of operations or financial condition could be materially adversely affected.

Risks associated with our distribution channels may materially adversely affect our financial results.

In addition to our direct sales force, we have agreements in place with many distributors, systems integrators, resellers and original equipment manufacturers to market and sell our products and services. We derive a significant percentage of our revenues from such distribution channels. Our financial results could be materially adversely affected if our contracts with channel partners were terminated, if our relationship with channel partners were to deteriorate, if the financial condition of our channel partners were to weaken, if our channel partners were not able to timely and effectively implement their planned actions or if the level of demand for our channel partners' products and services were to decrease. In addition, as our market opportunities change, we may have an increased reliance on channel partners, which may negatively impact our gross margins. There can be no assurance that we will be successful in maintaining or expanding these channels. If we are not successful in maintaining or expanding these channels, we may lose sales opportunities, customers and market share. Furthermore, our partial reliance on channel partners may materially reduce our management's visibility of potential customers and demand for products and services, thereby making it more difficult to accurately forecast such demand. In addition, there can be no assurance that our channel partners will not develop,

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market or sell products or services or acquire other companies that develop, market or sell products or services in competition with us in the future.

In addition, as we focus on new market opportunities and additional customers through our various distribution channels, including small-to-medium sized businesses, we may be required to provide different levels of service and support than we typically have provided in the past. We may have difficulty managing directly or indirectly through our channels these different service and support requirements and may be required to incur substantial costs to provide such services, which may adversely affect our business, results of operations or financial condition.

Our business could be materially adversely affected as a result of the risks associated with alliances.

We have strategic alliances with leading information technology companies, some of whom may be our competitors in other areas, and we plan to continue our strategy of developing key alliances in order to expand our reach into existing and new markets. There can be no assurance that we will be successful in our ongoing strategic alliances or that we will be able to find further suitable business relationships as we develop new products and strategies. Any failure to continue or expand such relationships could have a material adverse effect on our business, results of operations or financial condition.

There can be no assurance that companies with which we have strategic alliances, certain of which have substantially greater financial, marketing or technological resources than us, will not develop or market products in competition with us in the future, discontinue their alliances with us or form alliances with our competitors.

Our business may suffer if we cannot protect our intellectual property.

We generally rely upon patent, copyright, trademark and trade secret laws and contract rights in the United States and in other countries to establish and maintain our proprietary rights in our technology and products. However, there can be no assurance that any of our proprietary rights will not be challenged, invalidated or circumvented. In addition, the laws of certain countries do not protect our proprietary rights to the same extent as do the laws of the United States. Therefore, there can be no assurance that we will be able to adequately protect our proprietary technology against unauthorized third-party copying or use, which could adversely affect our competitive position. Further, there can be no assurance that we will be able to obtain licenses to any technology that we may require to conduct our business or that, if obtainable, such technology can be licensed at a reasonable cost.

From time to time, we receive notices from third parties claiming infringement by our products of third-party patent or other intellectual property rights. Responding to any such claim, regardless of its merit, could be time-consuming, result in costly litigation, divert management’s attention and resources and cause us to incur significant expenses. In the event there is a temporary or permanent injunction entered prohibiting us from marketing or selling certain of our products or a successful claim of infringement against us requiring us to pay royalties to a third party, and we fail to develop or license a substitute technology, our business, results of operations or financial condition could be materially adversely affected.

In addition, although we believe we have adequate security measures, if our intellectual property or other sensitive data is misappropriated, we could suffer monetary and other losses and reputational harm, which could materially adversely affect our business, results of operations or financial condition.

Issues arising during the upgrade of our enterprise resource planning system could affect our operating results and ability to manage our business effectively.

We are in the process of upgrading our enterprise resource planning, or ERP, computer system to enhance operating efficiencies and provide more effective management of our business operations. While one phase of our upgrade was implemented in the third quarter of 2012, we still have further planned phases to our upgrade. The upgrade could cause substantial business interruption that could adversely impact our operating results. We are investing significant financial and personnel resources into this project. However, there is no assurance that the system upgrade will meet our current or future business needs or that it will operate as designed. We are heavily dependent on such computer systems, and any significant failure or delay in the system upgrade could cause a substantial interruption to our business and additional expense, which could result in an adverse impact on our operating results, cash flows or financial condition.

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We may have exposure to additional income tax liabilities.

As a multinational corporation, we are subject to income taxes in both the United States and various foreign jurisdictions. Due to economic and political conditions, tax rates in various jurisdictions may be subject to significant change, which might significantly impact our effective income tax rate in the future. Our domestic and international tax liabilities are subject to the allocation of revenues and expenses in different jurisdictions and the timing of recognizing revenues and expenses. Additionally, the amount of income taxes paid is subject to our interpretation of applicable tax laws in the jurisdictions in which we file and changes to tax laws. From time to time, we are subject to income tax audits. While we believe we have complied with all applicable income tax laws, there can be no assurance that a governing tax authority will not have a different interpretation of the law and assess us with additional taxes. Should we be assessed with additional taxes, there could be a material adverse effect on our results of operations or financial condition.

As part of the current Administration’s ongoing negotiations, President Obama, House of Representatives and Senate Committees have called for a comprehensive tax reform, which might change certain U.S. tax rules for U.S. corporations doing business outside the United States. While the scope of future changes differs among various tax proposals and remains unclear, proposed changes might include limiting the ability of U.S. corporations to deduct certain expenses attributable to offshore earnings, modifying the foreign tax credit rules and taxing currently certain transfers of intangibles offshore. The enactment of some or all of these proposals could increase the Company's effective tax rate and adversely affect our profitability.

Recent developments in 2014, including the Irish government’s announced changes to the taxation of certain existing non-resident Irish companies beginning in January 2021, and the Organisation for Economic Co-operation and Development’s project on Base Erosion and Profit Shifting, could ultimately impact our tax liabilities to foreign jurisdictions and treatment of our foreign earnings from a U.S. perspective, which may adversely impact our effective tax rate.

On July 27, 2015, the U.S. Tax Court issued an opinion in Altera Corp. v. Commissioner related to the treatment of stock-based compensation expense in an intercompany cost-sharing arrangement. A final decision has yet to be issued by the U.S. Tax Court due to other outstanding procedural issues. At this time, the U.S. Department of the Treasury has not withdrawn the requirement from its regulations to include stock-based compensation. The I.R.S. has the right to appeal the U.S. Tax Court decision. We concluded that no adjustment to our consolidated financial statements is appropriate at this time due to the uncertainties with respect to the ultimate resolution of this case.

Changes in laws or regulations could materially adversely affect us.

Our business, results of operations or financial condition could be materially adversely affected if laws, regulations or standards relating to us or our products are newly implemented or changed. In addition, our compliance with existing regulations may have a material adverse impact on us. Under applicable federal securities laws, including the Sarbanes-Oxley Act of 2002, we are required to evaluate and determine the effectiveness of our internal control structure and procedures for financial reporting. Should we or our independent auditors determine that we have material weaknesses in our internal controls, our results of operations or financial condition may be materially adversely affected or our stock price may decline.

Changes in generally accepted accounting principles may materially adversely affect us.

From time to time, the Financial Accounting Standards Board (“FASB”) promulgates new accounting principles that could have a material adverse impact on our results of operations or financial condition. The FASB is currently

contemplating a number of new accounting pronouncements which, if approved, could materially change our reported results. Such changes could have a material adverse impact on our results of operations and financial position.

Our business could be materially adversely affected as a result of the risks associated with acquisitions, investments and joint ventures.

As part of our business strategy, we seek to acquire businesses that offer complementary products, services or technologies. These acquisitions are accompanied by risks commonly encountered in an acquisition of a business, which may include, among other things:

- the effect of the acquisition on our financial and strategic position and reputation;
- the failure of an acquired business to further our strategic plans;

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- the failure of the acquisition to result in expected benefits, which may include benefits relating to enhanced revenues, technology, human resources, cost savings, operating efficiencies and other synergies;
- the difficulty and cost of integrating the acquired business, including costs and delays in implementing common systems and procedures and costs and delays caused by communication difficulties or geographic distances between the two companies' sites;
- the assumption of known or unknown liabilities of the acquired business, including litigation-related liability;
- the potential impairment of acquired assets;
- the lack of experience in new markets, products or technologies or the initial dependence on unfamiliar supply or distribution partners;
- the diversion of our management's attention from other business concerns;
- the impairment of relationships with customers or suppliers of the acquired business or our customers or suppliers;
- the recoverability of benefits from goodwill and intangible assets and the potential impairment of these assets;
- the potential loss of key employees of the acquired company; and
- the potential incompatibility of business cultures.

These factors could have a material adverse effect on our business, results of operations or financial condition. To the extent that we issue shares of our common stock or other rights to purchase our common stock in connection with any future acquisition, existing shareholders may experience dilution. Additionally, regardless of the form of consideration issued, acquisitions could negatively impact our net income and our earnings per share.

In addition to the risks commonly encountered in the acquisition of a business as described above, we may also experience risks relating to the challenges and costs of closing a transaction or failing to close an announced transaction. Further, the risks described above may be exacerbated as a result of managing multiple acquisitions at the same time.

We also seek to invest in businesses that offer complementary products, services or technologies and to, from time to time, create new joint ventures or alliances. These investments and ventures are accompanied by risks similar to those encountered in an acquisition of a business.

Our pension plan assets are subject to market volatility.

We have a noncontributory defined benefit pension plan assumed as part of our Data General acquisition. The plan's assets are invested in common stocks, bonds and cash. For 2014, the expected long-term rate of return on the plan's assets was 6.75%, but we experienced a 13.14% gain on plan assets. As of December 31, 2014, the ten-year historical rate of return on plan assets was 7.18%, and the inception to date return on plan assets was 9.97%. For 2015, the expected long-term rate of return on the plan's assets is 6.50%. As market conditions permit, we expect to continue to shift the asset allocation to lower the percentage of investments in equities and increase the percentage of investments in long-duration fixed-income securities. The effect of such change could result in a reduction in the long-term rate of return on plan assets and an increase in future pension expense. Should we not achieve the expected rate of return on the plan's assets or if the plan experiences a decline in the fair value of its assets, we may be required to contribute assets to the plan which could materially adversely affect our results of operations or financial condition.

Our business could be materially adversely affected by changes in regulations or standards regarding energy use of our products.

We continually seek ways to increase the energy efficiency of our products. Recent environmental analyses have focused on the estimated amount of global carbon emissions that are generated by information technology products. As a result, governmental and non-governmental organizations have turned their attention to the development of

regulations and standards to drive technological improvements to reduce the amount of such carbon emissions. There is a risk that any regulations or standards developed by these organizations will not fully address the complexity of the products and technology developed by the IT industry or will favor certain technological approaches to reducing such carbon emissions. Depending on the regulations or standards that are ultimately adopted, compliance with such regulations or standards could materially adversely affect our business, results of operations or financial condition.

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Our business could be materially adversely affected as a result of war, acts of terrorism, natural disasters or climate change.

Terrorist acts, acts of war, natural disasters, or the direct and indirect effects of climate change (such as a rise in sea level, increased storm severity, drought, flooding, wildfires, pandemics, and social unrest from resource depletion and rising food prices) may cause damage or disruption to our employees, facilities, customers, partners, suppliers, distributors and resellers, which could have a material adverse effect on our business, results of operations or financial condition. Such events may also cause damage or disruption to transportation and communication systems and to our ability to manage logistics in such an environment, including receipt of components and distribution of products.

Our failure to pay quarterly dividends to our shareholders could materially adversely affect our stock price.

Our ability to pay quarterly dividends will be subject to, among other things, our financial position and results of operations, available cash and cash flow, and capital requirements. Any reduction or discontinuation of quarterly dividends could cause our stock price to decline significantly.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ISSUER PURCHASES OF EQUITY SECURITIES IN THE THIRD QUARTER OF 2015
(table in millions, except per share amounts)

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2015 – July 31, 2015	1	$26.84	—	223
August 1, 2015 – August 31, 2015	1	26.82	—	223
September 1, 2015 – September 30, 2015	—	—	—	223
Total	2 [2]	$26.83	—	223

(1) Except as noted in note (2), all shares were purchased in open-market transactions pursuant to our previously announced authorization by our Board of Directors in December 2014 to repurchase a total of 250 million shares of our common stock. This repurchase authorization does not have a fixed termination date.

(2) Includes 2 million shares withheld from employees for the payment of taxes

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

(a) Exhibits

See index to Exhibits on page 68 of this report.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 9, 2015

EMC CORPORATION

By: /s/ Zane C. Rowe
Zane C. Rowe
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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EXHIBIT INDEX

3.1	Restated Articles of Organization of EMC Corporation. (1)
3.2	Amended and Restated Bylaws of EMC Corporation. (1)
4.1	Form of Stock Certificate. (2)
4.2	Underwriting Agreement, dated as of June 3, 2013, by and among the Company, Citigroup Global Markets Inc., J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representatives of the several underwriters named therein. (3)
4.3	Indenture, dated as of June 6, 2013, by and between the Company and Wells Fargo Bank, National Association, as Trustee. (3)
10.1	Agreement and Plan of Merger, by and among, EMC Corporation, Embrace Merger Corporation, Virtustream Group Holdings, Inc. and the Stockholder Representative named therein, dated May 22, 2015. (4)
10.2	Virtustream Group Holdings, Inc. 2009 Equity Incentive Plan, as amended. (filed herewith)
10.3	Agreement and Plan of Merger, dated as of October 12, 2015, among Denali Holding Inc., Dell Inc., Universal Acquisition Co. and EMC Corporation (5)
10.4*	Form of Change in Control Severance Agreement for Executive Officers. (filed herewith)
31.1	Certification of Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (filed herewith)
31.2	Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (filed herewith)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (filed herewith)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (filed herewith)
101.INS**	XBRL Instance Document. (filed herewith)
101.SCH**	XBRL Taxonomy Extension Schema. (filed herewith)
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase. (filed herewith)
101.DEF**	XBRL Taxonomy Extension Definition Linkbase. (filed herewith)
101.LAB**	XBRL Taxonomy Extension Label Linkbase. (filed herewith)
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase. (filed herewith)

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* Identifies an exhibit that is a management contract or compensatory plan or arrangement.

** Pursuant to Rule 406T of Regulation S-T, these interactive data files shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

(1) Incorporated by reference to EMC Corporation's Quarterly Report on Form 10-Q filed May 3, 2013 (No. 1-9853).

(2) Incorporated by reference to EMC Corporation's Annual Report on Form 10-K filed February 29, 2008 (No. 1-9853).

(3) Incorporated by reference to EMC Corporation's Current Report on Form 8-K filed June 6, 2013 (No. 1-9853).

(4) Incorporated by reference to EMC Corporation's Current Report on Form 8-K filed July 9, 2015 (No. 1-9853).

(5) Incorporated by reference to EMC Corporation's Current Report on Form 8-K filed October 13, 2015 (No. 1-9853).