

EMC CORP
Form 10-Q
August 08, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from _____ to _____

Commission File Number 1-9853

EMC CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts 04-2680009

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

176 South Street
Hopkinton, Massachusetts 01748
(Address of principal executive offices) (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 No

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

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

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

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

The number of shares of common stock, par value \$.01 per share, of the registrant outstanding as of June 30, 2016 was 1,956,842,060.

Table of Contents

EMC CORPORATION

	Page No.
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (unaudited)</u>	
<u>Consolidated Balance Sheets at June 30, 2016 and December 31, 2015</u>	<u>3</u>
<u>Consolidated Income Statements for the Three and Six Months Ended June 30, 2016 and 2015</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2016 and 2015</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2016 and 2015</u>	<u>6</u>
<u>Consolidated Statements of Shareholders' Equity for the Six Months Ended June 30, 2016 and 2015</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>31</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>50</u>
<u>Item 4. Controls and Procedures</u>	<u>50</u>
<u>PART II — OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>51</u>
<u>Item 1A. Risk Factors</u>	<u>52</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>63</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>63</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>63</u>
<u>Item 5. Other Information</u>	<u>63</u>
<u>Item 6. Exhibits</u>	<u>63</u>
<u>SIGNATURES</u>	<u>64</u>
<u>EXHIBIT INDEX</u>	<u>65</u>

FACTORS THAT MAY AFFECT FUTURE RESULTS

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

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

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$9,354	\$ 6,549
Short-term investments	2,407	2,726
Accounts and notes receivable, less allowance for doubtful accounts of \$89 and \$90	2,896	3,977
Inventories	1,243	1,245
Other current assets	650	566
Total current assets	16,550	15,063
Long-term investments	4,387	5,508
Property, plant and equipment, net	3,725	3,850
Intangible assets, net	1,998	2,149
Goodwill	17,137	17,090
Deferred income taxes	1,169	1,164
Other assets, net	1,779	1,788
Total assets	\$46,745	\$ 46,612
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$1,158	\$ 1,644
Accrued expenses	2,739	3,123
Income taxes payable	285	609
Short-term debt (See Note 4)	800	1,299
Deferred revenue	6,421	6,210
Total current liabilities	11,403	12,885
Income taxes payable	487	461
Deferred revenue	4,750	4,592
Long-term debt (See Note 4)	5,479	5,475
Other liabilities	471	480
Total liabilities	22,590	23,893
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 1,957 and 1,943 shares	20	19
Additional paid-in capital	—	—
Retained earnings	22,679	21,700
Accumulated other comprehensive loss, net	(561) (579)
Total EMC Corporation's shareholders' equity	22,138	21,140
Non-controlling interests	2,017	1,579

Total shareholders' equity	24,155	22,719
Total liabilities and shareholders' equity	\$46,745	\$ 46,612

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

Table of ContentsEMC CORPORATION
CONSOLIDATED INCOME STATEMENTS(in millions, except per share amounts)
(unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Revenues:				
Product sales	\$3,161	\$3,225	\$5,843	\$6,130
Services	2,856	2,772	5,649	5,480
	6,017	5,997	11,492	11,610
Costs and expenses:				
Cost of product sales	1,307	1,433	2,557	2,762
Cost of services	974	977	1,939	1,922
Research and development	821	782	1,635	1,570
Selling, general and administrative	2,034	2,102	4,021	4,139
Restructuring and acquisition-related charges	(1)	23	48	158
Operating income	882	680	1,292	1,059
Non-operating income (expense):				
Investment income	26	26	39	51
Interest expense	(42)	(41)	(84)	(81)
Other income (expense), net	(14)	24	(9)	34
Total non-operating income (expense)	(30)	9	(54)	4
Income before provision for income taxes	852	689	1,238	1,063
Income tax provision	222	170	311	252
Net income	630	519	927	811
Less: Net income attributable to the non-controlling interests	(49)	(32)	(78)	(72)
Net income attributable to EMC Corporation	\$581	\$487	\$849	\$739
Net income per weighted average share, basic attributable to EMC Corporation common shareholders	\$0.30	\$0.25	\$0.43	\$0.38
Net income per weighted average share, diluted attributable to EMC Corporation common shareholders	\$0.29	\$0.25	\$0.43	\$0.37
Weighted average shares, basic	1,955	1,927	1,952	1,950
Weighted average shares, diluted	1,973	1,947	1,969	1,971
Cash dividends declared per common share	\$0.12	\$0.12	\$0.23	\$0.23

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

Table of Contents

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$630	\$ 519	\$927	\$ 811
Other comprehensive income (loss), net of taxes (benefits):				
Foreign currency translation adjustments	(24)	18	(21)	(86)
Changes in market value of investments:				
Changes in unrealized gains, net of taxes of \$6, \$0, \$18 and \$12	12	1	32	20
Reclassification adjustment for net gains realized in net income, net of benefits (taxes) of \$2, \$(7), \$2 and \$(13)	2	(13)	4	(21)
Net change in market value of investments	14	(12)	36	(1)
Changes in market value of derivatives:				
Changes in unrealized gains (losses), net of taxes (benefits) of \$2, \$(2), \$1 and \$1	4	(5)	—	9
Reclassification adjustment for net losses (gains) included in net income, net of benefits of \$2, \$2, \$4 and \$2	5	—	9	(11)
Net change in the market value of derivatives	9	(5)	9	(2)
Other comprehensive income (loss)	(1)	1	24	(89)
Comprehensive income	629	520	951	722
Less: Net income attributable to the non-controlling interests	(49)	(32)	(78)	(72)
Less: Other comprehensive income attributable to the non-controlling interests	(2)	(2)	(6)	(3)
Comprehensive income attributable to EMC Corporation	\$578	\$ 486	\$867	\$ 647

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

Table of Contents

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

	For the Six Months Ended	
	June 30, 2016	June 30, 2015
Cash flows from operating activities:		
Cash received from customers	\$12,953	\$13,137
Cash paid to suppliers and employees	(9,749)	(10,076)
Dividends and interest received	57	68
Interest paid	(72)	(67)
Income taxes paid	(649)	(949)
Net cash provided by operating activities	2,540	2,113
Cash flows from investing activities:		
Additions to property, plant and equipment	(299)	(449)
Capitalized software development costs	(310)	(262)
Purchases of short- and long-term available-for-sale securities	(2,458)	(4,212)
Sales of short- and long-term available-for-sale securities	2,140	2,667
Maturities of short- and long-term available-for-sale securities	1,771	913
Business acquisitions, net of cash acquired	(59)	(61)
Purchases of strategic and other related investments	(25)	(160)
Sales of strategic and other related investments	41	109
Increase in restricted cash	(4)	—
Net cash provided by (used in) investing activities	797	(1,455)
Cash flows from financing activities:		
Proceeds from the issuance of EMC's common stock	144	170
Proceeds from the issuance of VMware's common stock	52	69
EMC repurchase of EMC's common stock	—	(2,063)
VMware repurchase of VMware's common stock	—	(850)
Excess tax benefits from stock-based compensation	9	54
Net proceeds (payments) for the issuance of short-term obligations		