

DELL INC  
Form 10-Q/A  
June 27, 2008

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-Q/A  
Amendment No. 1**

(Mark One)

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

**For the quarterly period ended May 2, 2008**

**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: 0-17017**

**Dell Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction  
of incorporation or organization)*

**74-2487834**

*(I.R.S. Employer  
Identification No.)*

**One Dell Way**

**Round Rock, Texas 78682**

*(Address of principal executive offices) (Zip Code)*

**(512) 338-4400**

*(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 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

Smaller reporting company

(Do not check if a 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

As of the close of business on May 30, 2008, 2,020,946,756 shares of common stock, par value \$.01 per share, were outstanding.

---

**TABLE OF CONTENTS**

EXPLANATORY NOTE

PART I -- FINANCIAL INFORMATION

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

PART II -- OTHER INFORMATION

ITEM 6. Exhibits

SIGNATURE

INDEX TO EXHIBITS

Certification of Michael S. Dell Pursuant to Rule 13a-14(a)

Certification of Brian T. Gladden Pursuant to Rule 13a-14(a)

Certifications of Michael S. Dell and Brian T. Gladden pursuant to Section 906

---

**Table of Contents**

**EXPLANATORY NOTE**

Dell Inc. is filing this amendment (the Form 10-Q/A ) to our Quarterly Report on Form 10-Q for the quarter ended May 2, 2008 (the Form 10-Q ), filed with the U.S. Securities and Exchange Commission ( SEC ) on June 3, 2008, solely to correct typographical errors in the line item captions in the net revenue by product and service table on page 24 of that Form 10-Q in Part 1 Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations.

This Form 10-Q/A should be read in conjunction with the original Form 10-Q, continues to speak as of the date of the Form 10-Q, and does not modify or update disclosures in the original Form 10-Q except as noted above. Accordingly, this Form 10-Q/A does not reflect events occurring after the filing of the Form 10-Q or modify or update any related disclosures. In particular, any forward-looking statements included in this Form 10-Q/A represent management s view as of the filing date of the Form 10-Q.

**PART I FINANCIAL INFORMATION**

**ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations**

**SPECIAL NOTE:** *This section, Management s Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements based on our current expectations. Actual results in future periods may differ materially from those expressed or implied by those forward-looking statements because of a number of risks and uncertainties. For a discussion of risk factors affecting our business and prospects, see Part I Item 1A Risk Factors in our Annual Report on Form 10-K for the fiscal year ended February 1, 2008.*

*All percentage amounts and ratios were calculated using the underlying data in thousands. Unless otherwise noted, all references to industry share and total industry growth data are for personal computers (including desktops, notebooks, and x86 servers), and are based on preliminary information provided by IDC Worldwide Quarterly PC Tracker, April 25, 2008. Share data is for the calendar quarter and all our growth rates are on a fiscal year-over-year basis. Unless otherwise noted, all references to time periods refer to our fiscal periods.*

**Overview**

*Our Company*

As a leading technology company, we offer a broad range of product categories, including desktop PCs, notebooks, software and peripherals, servers and networking products, services, and storage. We are the number one supplier of personal computer systems in the United States, and the number two supplier worldwide.

We have manufacturing locations around the world and relationships with third-party original equipment manufacturers. This structure allows us to optimize our global manufacturing and logistics network to best serve our global customer base. We continue to expand our supply chain which allows us to enhance product design and features, shorten product development cycles, improve logistics, and lower costs all of which improve our competitiveness.

We were founded on the core principle of a direct customer business model which included build to order hardware for consumer and commercial customers. The inherent velocity of this model, which included highly efficient manufacturing and logistics, allowed for low inventory levels and the ability to be the industry leader in selling the

most relevant technology, at the best value, to our customers. Our direct relationships with customers also allowed us to bring to market products that featured customer driven innovation, thereby allowing us to be on the forefront of changing user requirements and needs. Over time we have expanded our business model to include a broader portfolio of products, including services, and we have also added new distribution channels, like consumer retail and value added resellers, which allows us to reach even more customers around the world. We also offer various financing alternatives, asset management services, and other customer financial services for business and consumer

## Table of Contents

customers. Recently, as a part of our overall growth strategy, we have executed targeted acquisitions to augment select areas of our business with more products, services, and technology.

Our new distribution channels include the launch in Fiscal 2008 of our global retail initiative, offering select products in retail stores in the Americas; Europe, Middle East, and Africa ( EMEA ); and Asia Pacific-Japan ( APJ ). In Fiscal 2008, we also launched PartnerDirect, a global program that will bring our existing value-added reseller programs under one umbrella including training, certification, deal registration, focused sales and customer care, and a dedicated web portal.

We have always strived to simplify technology and lower costs for our customers while expanding our business opportunities. To continue to meet this goal, sustain our business strategy, and improve our business, we are focused on improving our competitiveness and reigniting growth. We believe these actions will help position us for sustainable long-term profitable growth.

*Improving our current state* We are focused on eliminating bureaucracy and improving competitiveness by enhancing our productivity and becoming more efficient while strengthening our operating processes and internal controls. Our new and experienced executive leadership team is working together to increase productivity and efficiency across all functions.

*Reigniting growth* We are enabling our growth strategy by focusing on five key areas:

*Global Consumer* In the first quarter of Fiscal 2009, we realigned our management and reporting structure to focus on worldwide sales to individual consumers and retailers as a part of an internal consolidation of our consumer business. The consolidation will improve our global sales execution and coverage through better customer alignment, targeted sales force investments in rapidly growing countries, and improved marketing tools. We are also designing new, innovative products with faster development cycles and competitive features. Finally, we have rapidly expanded our retail business in order to reach more consumers.

*Enterprise* We are focused on simplifying IT for our customers to allow customers to deploy IT faster, run IT at a total lower cost, and grow IT smarter. As a result of our simplify IT focus, we have become the industry leader in server virtualization, power, and cooling performance.

*Notebooks* Our goal is to reclaim notebook leadership by creating the best products while shortening our development cycle and being the most innovative developer of notebooks. To help meet this goal, we have recently separated our consumer and commercial design functions and launched several notebook products. We expect to launch a number of new notebook products in Fiscal 2009, targeting various price and performance bands.

*Small and Medium Business* We are focused on providing small and medium businesses the simplest and most complete IT solution by extending our channel direct program (PartnerDirect) and expanding our offerings to mid-sized businesses. We are committed to improving our storage products and services as evidenced by our new Building IT-as-a-Service solution, which provides businesses with remote and lifecycle management, e-mail backup, and software license management.

*Emerging countries* As a part of our growth strategy, we are focusing on and investing resources in emerging countries with an emphasis on Brazil, Russia, India, and China. We are also creating custom products and services to meet the preferences and demands of individual countries and various regions.

We continue to grow our business organically and through strategic acquisitions. During the first quarter of Fiscal 2009, we acquired two companies, with the larger being MessageOne, Inc. These acquisitions are targeted to further

expand our service capabilities. We expect to make more strategic acquisitions in the future.



**Table of Contents***First Quarter Performance*

<i>Share position</i>	We shipped almost 11 million units, resulting in a worldwide PC share position of 15.7%, an increase of 0.9 percentage points year-over-year.
<i>Net revenue</i>	Net revenue increased 9% year-over-year to \$16.1 billion, with unit shipments up 22% year-over-year.
<i>Operating income</i>	Operating income was \$899 million for the current quarter, or 5.5% of revenue, as compared to \$933 million or 6.3% of revenue for first quarter of Fiscal 2008.
<i>Earnings per share</i>	Earnings per share increased 12% to \$0.38 for the current quarter compared to \$0.34 for the first quarter of Fiscal 2008.

**Results of Operations**

The following table summarizes the results of our operations for the three month periods ended May 2, 2008, and May 4, 2007:

	<b>Three Months Ended</b>			
	<b>May 2, 2008</b>		<b>May 4, 2007</b>	
	<b>Dollars</b>	<b>% of Revenue</b>	<b>Dollars</b>	<b>% of Revenue</b>
	<b>(in millions, except per share amounts and percentages)</b>			
Net revenue	\$ 16,077	100.0%	\$ 14,722	100.0%
Gross margin	\$ 2,965	18.4%	\$ 2,838	19.3%
Operating expenses	\$ 2,066	12.9%	\$ 1,905	13.0%
Operating income	\$ 899	5.5%	\$ 933	6.3%
Net income	\$ 784	4.9%	\$ 756	5.1%
Earnings per share diluted	\$ 0.38	N/A	\$ 0.34	N/A

*Consolidated Operations*

Consolidated revenue grew 9% year-over-year in the first quarter of Fiscal 2009. We grew revenue across all segments, led by Global Consumer with 20% revenue growth year-over-year. APJ Commercial and EMEA Commercial also experienced strong year-over-year revenue growth of 19% and 15%, respectively. Our mobility products and software & peripherals business experienced significant revenue growth year over year as well, with growth rates of 22% and 17%, respectively. Revenue and profitability growth during the first quarter of Fiscal 2009 was partially offset by the decline in desktop revenue. Revenue outside the U.S. comprised just over 50% of consolidated revenue for the first quarter of Fiscal 2009, compared to 47% for the same period last year. Combined Brazil, Russia, India, and China ( BRIC ) year-over-year revenue growth was 58% on unit growth of 73% for the first quarter of Fiscal 2009. The weakening dollar helped to stimulate overall demand; generally, foreign currency exchange rates increased approximately 4% against the U.S. dollar. However, we generally pass on these foreign currency benefits to customers through lower local currency pricing of products and services, as we typically manage our business on a U.S. dollar basis. To continue to capitalize on and increase international growth, we are tailoring solutions to meet specific regional needs, enhancing relationships to provide customer choice and flexibility, and expanding into these and other emerging countries that represent 85% of the world's population.

Operating income decreased 4% year-over-year to \$899 million for the first quarter of Fiscal 2009. The decline in operating income is mainly due to a less favorable cost environment than a year ago as we are overlapping a period of unprecedented cost declines. Net income increased 4% year-over-year to \$784 million during the first quarter of Fiscal 2009 primarily due to higher investment and other income related to a foreign exchange rate error adjustment from prior periods and a lower effective tax rate. The first quarter of Fiscal 2009 includes the correction of certain items related to prior years totaling approximately \$110 million on a pre-tax basis. The two largest items include a Fiscal 2008 employee bonus reversal and a foreign exchange rate error correction of \$46 million and \$42 million, respectively, on a pre-tax basis.

Our average selling price (total revenue per unit sold) in the first quarter of Fiscal 2009 decreased 10% year-over-year, which primarily resulted from our strategy to participate in a broader range of products and price bands, which

**Table of Contents**

helped to fuel unit growth. In addition, we have concentrated on solutions sales, realigning pricing, and driving a better mix of products and services, while pricing our products to remain competitive in the marketplace. In the first quarter of Fiscal 2009, we continued to see competitive pressure, particularly for lower priced desktops and notebooks. However, we were able to gain share across all regions and major products during the first quarter of calendar 2008. We expect that this competitive pricing environment will continue for the foreseeable future.

*Revenues by Segment*

We conduct operations worldwide. Effective the first quarter of Fiscal 2009, we combined our consumer businesses of EMEA, APJ, and Americas International (formerly reported through Americas Commercial) with our U.S. Consumer business and re-aligned our management and financial reporting structure. As a result, effective in the first quarter of Fiscal 2009, our operating structure consisted of the following four segments: Americas Commercial, EMEA Commercial, APJ Commercial, and Global Consumer. Our commercial business includes sales to corporate, government, healthcare, education, small and medium business customers, and value-added resellers and is managed through the Americas Commercial, EMEA Commercial, and APJ Commercial segments. The Americas Commercial segment, which is based in Round Rock, Texas, encompasses the U.S., Canada, and Latin America. The EMEA Commercial segment, based in Bracknell, England, covers Europe, the Middle East, and Africa; and the APJ Commercial segment, based in Singapore, encompasses the Asian countries of the Pacific Rim as well as Australia, New Zealand, and India. The Global Consumer segment, which is based in Round Rock, Texas, includes global sales and product development for individual consumers and retailers around the world. We revised previously reported operating segment information to conform to our new operating structure in effect as of May 2, 2008.

During the second half of Fiscal 2008, we began selling desktop and notebook computers, printers, ink, and toner through retail channels in the Americas, EMEA, and APJ in order to expand our customer base. Our goal is to have strategic relationships with a number of major retailers in our larger geographic regions. During the first quarter of Fiscal 2009, we expanded our global retail presence, and we now reach more than 13,000 retail locations worldwide.

The following table summarizes our revenue by reportable segment:

	<b>Three Months Ended</b>			
	<b>May 2, 2008</b>		<b>May 4, 2007</b>	
	<b>Dollars</b>	<b>% of Revenue</b>	<b>Dollars</b>	<b>% of Revenue</b>
	<b>(in millions, except percentages)</b>			
<i>Net revenue</i>				
Americas Commercial	\$ 7,298	45%	\$ 7,251	49%
EMEA Commercial	3,806	24%	3,317	22%
APJ Commercial	2,024	13%	1,707	12%
Global Consumer	2,949	18%	2,447	17%
Net revenue	\$ 16,077	100%	\$ 14,722	100%

Americas Commercial Americas Commercial revenue increased 1% with unit shipments up by 3% year-over-year for the first quarter of Fiscal 2009. Growth in the commercial side of Americas International, which includes countries in North and South America other than the United States, drove the majority of the increase in revenue in Americas Commercial. This growth was partially offset by weaker performance with our financial services

customers and small-and-medium business customers. We anticipate continued conservative spending in the U.S. in the second quarter of Fiscal 2009. From a product perspective, the slow net revenue growth in the first quarter of Fiscal 2009 was due to decreases in desktop and mobility sales of 12% and 2%, respectively, on unit decline of 2% and growth of 11%, respectively. This was offset by strong revenue growth of enhanced services and software and peripherals, which grew 26% and 13%, respectively, during the first quarter of Fiscal 2009. Growth in Americas International was led by Brazil Commercial, which experienced a 50% year-over-year increase in revenue during the first quarter of Fiscal 2009 as compared to Fiscal 2008.

**Table of Contents**

**EMEA Commercial** During the first quarter of Fiscal 2009, EMEA Commercial represented 24% of our total consolidated net revenue as compared to 22% in the first quarter of Fiscal 2008. EMEA Commercial had 15% year-over-year net revenue growth as on unit shipment growth of 30%. The revenue growth was primarily a result of higher demand for mobility, represented by a 32% increase in revenue on a unit shipment increase of 59%. Growth in storage revenue also contributed to EMEA Commercial's strong first quarter Fiscal 2009 performance as EMEA Commercial's storage revenue grew 48% year-over-year. The strengthening Euro and British Pound against the U.S. dollar during the first quarter of Fiscal 2009 helped to stimulate overall demand; however, we generally pass on these foreign currency benefits to customers through lower local currency pricing of products and services, as we typically manage our business on a U.S. dollar basis. Average price per unit decreased 12%, which reflects the mix of products sold, slightly offset by our pricing strategy.

**APJ Commercial** During the first quarter of Fiscal 2009, APJ Commercial experienced a 19% year-over-year increase in revenue to \$2.0 billion. For the first quarter of Fiscal 2009, sales of mobility products and unit volume increased year-over-year by 36% and 46%, respectively. Sales of mobility products grew due to the continued shift in customer preference from desktops to notebooks. APJ Commercial also reported 10% revenue growth in servers and networking on unit growth of 23% primarily due to our focus on delivering greater value within customer data centers with our rack optimized server platforms, whose average selling prices are higher than our tower servers. From a country perspective, India, Indonesia, Thailand, Philippines, China, and Malaysia, experienced significant revenue growth during the first quarter of Fiscal 2009. Significant growth in India and China during Fiscal 2009 contributed to a revenue growth rate of 52% and 30%, respectively, for these targeted BRIC countries. According to IDC data, APJ commercial grew more than three times the market, excluding Dell.

**Global Consumer** Global Consumer revenue increased 20% year-over-year on unit growth of 47% for the first quarter of Fiscal 2009. We grew two times faster than the industry on a unit basis and increased our global share to 9%. The increase in Global Consumer revenue is mainly due to strong mobility sales and software and peripherals growth. Mobility revenue increased 49% in the first quarter of Fiscal 2009 on a unit increase of 78% as compared to the first quarter of Fiscal 2008, and software and peripherals grew 28% during the same time period. Our mobility growth in this segment can be partially attributed to our entrance into retail distribution arrangements, which began in the second half of Fiscal 2008, and the continued shift of consumer preference from desktops to laptops. Our software and peripherals growth is due to a strong performance in software licensing. These increases were offset by a 5% decrease in desktop revenue although desktop units grew 16%.

We are continuing to invest in initiatives that will align our new and existing products around customers' needs and wants in order to drive long-term, sustainable performance, and in Fiscal 2009, we expect to launch more new notebooks than in Fiscal 2008.

***Revenue by Product and Services Categories***

We design, develop, manufacture, market, sell, and support a wide range of products that in many cases are customized to individual customer requirements. Our product categories include desktop computer systems, mobility products, software and peripherals, servers and networking products, and storage products. In addition, we offer a range of services.

**Table of Contents**

The following table summarizes our net revenue by product and service categories:

	<b>Three Months Ended</b>			
	<b>May 2, 2008</b>		<b>May 4, 2007</b>	
	<b>Dollars</b>	<b>% of Revenue</b>	<b>Dollars</b>	<b>% of Revenue</b>
	<b>(in millions, except percentages)</b>			
<i>Net revenue:</i>				
Desktop PCs	\$ 4,700	29%	\$ 4,942	33%
Mobility	4,904	31%	4,016	27%
Software & peripherals	2,741	17%	2,341	16%
Servers & networking	1,653	10%	1,593	11%
Services	1,448	9%	1,281	9%
Storage	631	4%	549	4%
Net revenue	\$ 16,077	100%	\$ 14,722	100%

**Desktop PCs** During the first quarter of Fiscal 2009, revenue from desktop PCs (which includes desktop computer systems and workstations) decreased 5% from the first quarter of Fiscal 2008 on a unit increase of 9%. The decline was primarily due to the on-going competitive pricing pressure for lower priced desktops as the demand for desktops continues to decrease as customers' preference shifts to mobility products. Consequently, our average selling price for desktops decreased 12% year-over-year during the first quarter of Fiscal 2009 as we aligned our prices to become more competitive in the marketplace. As a result of our pricing strategy, we were able to gain share during the first quarter of calendar 2008 and outgrew the market by increasing unit sales by 8% compared to industry average growth of 1% during that time period. Our Americas Commercial and Global Consumer segments experienced weaker performance in the first quarter of Fiscal 2009 with a 12% and 5% decrease, respectively, in desktop revenue year-over-year. The decline in revenue in Americas Commercial and Global Consumer was offset by a strong performance in APJ Commercial, where desktop sales increased 12% year-over-year during the first quarter of Fiscal 2009. We will likely see rising user demand for mobility products in the foreseeable future that will contribute to a slowing demand for desktop PCs as mobility growth is expected to outpace desktop growth at a rate of approximately six-to-one.

**Mobility** During the first quarter of Fiscal 2009, revenue from mobility products grew 22% on unit growth of 43%, which was better than industry's year-over-year growth of 37% during the first quarter of calendar 2008. We posted strong double-digit growth across all segments, except for Americas Commercial, whose mobility revenue decreased 2% year-over-year from Fiscal 2008 first quarter results. We saw conservative spending in the financial services, small-and-medium business, and public sectors of our Americas Commercial business. For the first quarter of Fiscal 2009, mobility revenue in Global Consumer, APJ Commercial, and EMEA Commercial grew 49%, 36%, and 32% year-over-year, respectively, on unit growth of 78%, 46%, and 59%, respectively. We remain enthusiastic about our product line-up in both consumer and commercial, and we will continue to capitalize on the growth of mobile computing within our APJ Commercial, EMEA Commercial, and Global Consumer segments by increasing the number of notebook models by over 40% throughout Fiscal 2009. During the quarter, we launched our ruggedized Latitude™ XFR, which is designed for reliable performance in the harshest environments, and we introduced the Dell 500 in emerging countries. As notebooks become more affordable and wireless products become standardized, demand for our mobility products continues to be strong.

Software and Peripherals Revenue from sales of software and peripherals consists of Dell-branded printers, monitors (not sold with systems), projectors, and a multitude of competitively priced third-party peripherals including plasma and LCD televisions, software, and other products. This revenue grew 17% year-over-year for the first quarter of Fiscal 2009 driven by strength in software licenses. The strong performance with software sales is primarily attributed to our acquisition of ASAP Software ( ASAP ), in the fourth quarter of Fiscal 2008. With ASAP, we now offer products from over 2,000 software publishers. At a segment level, Global Consumer led the revenue growth with a 28% year-over-year increase. APJ Commercial, EMEA Commercial, and Americas Commercial also experienced strong revenue growth of 22%, 17%, and 13%, respectively. During the quarter, we launched the UltraSharp 24 and 20 widescreen flat panel monitors, which integrate DisplayPort

**Table of Contents**

technology, a new digital interface standard. We also introduced the M209X Ultra-Mobile projector – one of the brightest projectors in the market for its size. During Fiscal 2009, we expect to continue to add displays, projectors, and printers to the shelves of several retail partners.

**Servers and Networking** Revenue from sales of servers and networking products grew 4% year-over-year for the first quarter of Fiscal 2009 on unit growth of 21%. Our year-over-year unit growth outpaced the industry's growth of 9% during the first quarter of calendar 2008. Our server and networking revenue grew slower than units due to our pricing strategy as we shift to lower price bands to drive growth. APJ Commercial, EMEA Commercial, and Americas Commercial contributed to the modest revenue growth, and in the first quarter, we were again ranked number one in the United States with a 36% share in server units shipped. Servers and networking remains a strategic focus area. We competitively price our server products to facilitate additional sales of storage products and higher margin enhanced services. Since the beginning of the year we have launched nine new server products, including two socket blade servers.

**Services** Services consists of a wide range of services including assessment, design and implementation, deployment, asset recovery and recycling, training, enterprise support, client support, and managed lifecycle. Services revenue increased 13% year-over-year for the three-month period ended May 2, 2008, to \$1.4 billion aided by the first full quarter of our new ProSupport offerings, which distilled ten service offerings down to two customizable packages spanning our commercial product and solutions portfolios with flexible options for service level and proactive management. Americas Commercial and APJ Commercial drove the increase in services revenue with revenue growth of 26% and 19%, respectively, in the first quarter of Fiscal 2009 as compared to the first quarter of Fiscal 2008. EMEA Commercial contributed with year-over-year revenue growth of 9%. During Fiscal 2008, we acquired a number of service technologies and capabilities through strategic acquisitions of certain companies. These capabilities are being used to build-out our mix of service offerings. We are continuing to make solid progress in services, including ProSupport, remote infrastructure management, and Software as a Service (SaaS), which are aimed at simplifying IT for our customers. Our deferred service revenue balance increased from \$5.3 billion at February 1, 2008, to \$5.4 billion at May 2, 2008, due to continued strength in services sales.

**Storage** Revenue from sales of storage products increased 15% year-over-year for the first quarter of Fiscal 2009. Storage revenue declined 3% from our fourth quarter Fiscal 2008 results primarily due to an intentional shift in product mix with a greater focus on more profitable products including PowerVault and EqualLogic. Year-over-year storage growth was led by strength in our Powervault line, which posted double-digit growth, and the first full quarter of EqualLogic offerings. APJ Commercial, EMEA Commercial, and Americas Commercial regions contributed to the strong year-over-year revenue growth. EMEA Commercial led the revenue growth, with a 48% increase for the first quarter of Fiscal 2009.

**Gross Margin**

The following table presents information regarding our gross margin for the three month periods ended May 2, 2008, and May 4, 2007:

	<b>Three Months Ended</b>			
	<b>May 2, 2008</b>		<b>May 4, 2007</b>	
	<b>Dollars</b>	<b>% of Revenue</b>	<b>Dollars</b>	<b>% of Revenue</b>
	<b>(in millions, except percentages)</b>			
Net revenue	\$ 16,077	100.0%	\$ 14,722	100.0%



Edgar Filing: DELL INC - Form 10-Q/A

Gross margin	\$	2,965	18.4%	\$	2,838	19.3%
--------------	----	-------	-------	----	-------	-------

During the first quarter of Fiscal 2009, our gross margin increased in absolute dollars to \$3.0 billion from \$2.8 billion compared to the same period in the prior year, driven by a 22% increase in unit shipments. However, our gross margin percentage decreased to 18.4% in the first quarter of Fiscal 2009 as compared to 19.3% in the first quarter of Fiscal 2008. In the first quarter of Fiscal 2009, gross margin was positively impacted by a favorable ruling in a patent litigation case and the related reversal of \$55 million of litigation reserves through cost of sales. In addition, a focus on more richly configured customer solutions and a better mix of products and services yielded a better balance of profitability and revenue growth. However, this was offset by slowing component cost declines.

**Table of Contents**

We continue to expand our utilization of original design manufacturers, manufacturing outsourcing relationships, and new distribution strategies to better meet customer needs and reduce product cycle times. Our goal is to introduce the latest relevant technology more quickly and to rapidly pass on component cost savings to a broader set of our customers worldwide. As we continue to evolve our inventory and manufacturing business model to capitalize on component cost declines, we continuously negotiate with our suppliers in a variety of areas including availability of supply, quality, and cost. These real-time continuous supplier negotiations support our business model, which is able to respond quickly to changing market conditions due to our direct customer model and real-time manufacturing. Because of the fluid nature of these ongoing negotiations, the timing and amount of supplier discounts and rebates vary from time to time. These discounts and rebates are allocated to the segments based on a variety of factors including strategic initiatives to drive certain programs, direction from the respective vendors, product mix, and direction on joint activities. In general, gross margin and margins on individual products will remain under downward pressure due to a variety of factors, including continued industry wide global pricing pressures, increased competition, compressed product life cycles, potential increases in the cost and availability of raw materials, and outside manufacturing services. We will continue to adjust our pricing strategy with the goals of remaining in competitive price position while maximizing margin expansion where appropriate. We are also continuing to identify opportunities to improve our competitiveness, including lowering costs and improving productivity. One example of these opportunities is our announcement on March 31, 2008, that we will close our desktop manufacturing facility in Austin, Texas. The cost of this action and other headcount and infrastructure reductions was \$106 million in the first quarter of Fiscal 2009 of which approximately \$24 million affected gross margin. In addition, we will take further actions to reduce total costs in design, materials, and operating expenses. Initial benefits of these opportunities are expected in the second half of Fiscal 2009.

*Operating Expenses*

The following table summarizes our operating expenses:

	<b>Three Months Ended</b>			
	<b>May 2, 2008</b>		<b>May 4, 2007</b>	
	<b>Dollars</b>	<b>% of Revenue</b>	<b>Dollars</b>	<b>% of Revenue</b>
	<b>(in millions, except percentages)</b>			
<i>Operating expenses:</i>				
Selling, general, and administrative	\$ 1,912	11.9%	\$ 1,763	12.0%
Research, development, and engineering	152	1.0%	142	1.0%
In-process research and development	2	0.0%	-	-
Operating expenses	\$ 2,066	12.9%	\$ 1,905	13.0%

*Selling, general, and administrative* During the first quarter of Fiscal 2009, selling, general, and administrative expenses were 11.9% of revenue as compared to 12.0% a year ago. However, selling, general, and administrative expense increased to \$1.9 billion compared to \$1.8 billion in the same period of Fiscal 2008. Other than increased expenses associated with higher revenue, the \$149 million increase in selling, general, and administrative expenses from the first quarter of Fiscal 2008 to the first quarter of Fiscal 2009 is primarily due to \$82 million of expenses related to headcount and infrastructure reductions discussed above, partially offset by the reversal of a Fiscal 2008 bonus accrual for \$38 million, and reductions in costs associated with the U.S. Securities and Exchange Commission ( SEC ) investigation and the Audit Committee s independent investigation. Expenses related to investigations were \$19 million for the first quarter of Fiscal 2009 as compared to \$46 million for the first quarter

of Fiscal 2008. The Audit Committee investigation was completed during Fiscal 2008; however, the SEC investigation is on-going. Additionally, the amortization of purchased intangibles related to our acquisitions totaled \$12 million as compared to \$3 million for the first quarter of Fiscal 2008. Lastly, stock-based compensation expense for the first quarter of Fiscal 2009 was \$43 million, a decrease of \$40 million from the prior year's expense of \$83 million. The decrease is primarily due to lower expense from awards that fully vested in Fiscal 2008, as well as higher estimated forfeitures in the first quarter of Fiscal 2009 as compared to the first quarter of Fiscal 2008.

**Table of Contents**

Research, development, and engineering During the first quarter of Fiscal 2009, research, development, and engineering expenses remained flat as a percentage of revenue. During first quarter of Fiscal 2009, research, development, and engineering expenses increased approximately \$10 million to \$152 million. The increase is mainly due to higher compensation costs. The increased compensation costs are mainly attributed to our Simplify IT initiative for our customers. Research and development is the foundation for this initiative, which is aimed at allowing customers to deploy IT faster, run IT at a lower total cost, and grow IT smarter. We manage our research, development, and engineering spending by targeting those innovations and products most valuable to our customers and by relying upon the capabilities of our strategic partners. We will continue to invest in research, development, and engineering activities to support our growth and to provide for new, competitive products. We have obtained 2,049 patents worldwide and have applied for 2,373 additional patents worldwide as of May 2, 2008.

In-Process research and development We recognized in-process research and development ( IPR&D ) charges in connection with acquisitions accounted for as business combinations, as more fully described in Note 7 of Notes to Condensed Consolidated Financial Statements included in Part I Item 1 Financial Statements. During the first quarter of Fiscal 2009, we recorded IPR&D charges of \$2 million, primarily related to our acquisition of Message One, Inc.

On May 31, 2007, we announced that we had initiated a comprehensive review of costs across all processes and organizations with the goal to simplify structure, eliminate redundancies, and better align operating expenses with the current business environment and strategic growth opportunities. These efforts are continuing. Since this announcement and through the end of the first quarter of Fiscal 2009, we have reduced headcount by approximately 7,000, excluding acquisitions, and strategically closed some of our facilities. As noted above, we expect to take further action to continue to reduce our cost structure in Fiscal 2009 to improve our competitiveness and increase productivity.

*Investment and Other Income, net*

The table below provides a detailed presentation of investment and other income, net for the first quarters of Fiscal 2009 and Fiscal 2008:

	<b>Three Months Ended</b>	
	<b>May 2, 2008</b>	<b>May 4, 2007</b>
	<b>(in millions)</b>	
Investment and other income, net:		
Investment income, primarily interest	\$ 55	\$ 116
Gains (losses) on investments, net	3	4
Interest expense	(12)	(12)
CIT minority interest		(5)
Foreign exchange	90	(22)
Other	(11)	(3)
Investment and other income, net	\$ 125	\$ 78

The year-over-year decrease in investment income for the first quarter of Fiscal 2009 is primarily due to earnings on lower average balances of cash equivalents and investments, partially offset by slightly higher yields. The year-over-year gain in foreign exchange for the first quarter of Fiscal 2009 is due to a \$42 million correction of an error in the remeasurement of certain local currency balances to the functional currency in prior periods. Certain non-monetary liabilities were incorrectly remeasured over time based on changes in currency exchange rates instead of remaining at historical exchange rates. Also, foreign exchange increased due to gains realized on our hedge program.

**Table of Contents***Income Taxes*

We reported an effective income tax rate of approximately 23.5% for the first quarter of Fiscal 2009, as compared to 25.3% for the same quarter in the prior year. The decrease in our effective rate for the first quarter of Fiscal 2009 is primarily due to decreases in uncertain tax positions resulting from the effective settlement of an examination in a foreign jurisdiction, reevaluation of certain tax incentives, and a lower accrual of interest and penalties related to uncertain tax positions. The differences between our effective tax rate and the U.S. federal statutory rate of 35% principally result from our geographical distribution of taxable income and differences between the book and tax treatment of certain items and inclusion of interest and penalties in income tax expense. Currently, we expect interest and penalties to cause our full year Fiscal 2009 rate to be slightly higher than our rate for the first quarter of Fiscal 2009; however, the tax rate for future fiscal quarters of Fiscal 2009 will be impacted by several factors, including the mix of jurisdictions in which income is generated.

Dell is currently under tax audit in various jurisdictions, including the United States. The tax periods open to examination by the major taxing jurisdictions to which Dell is subject include fiscal years 1997 through 2008. Dell does not anticipate a significant change to the total amount of unrecognized benefits within the next 12 months.

**Financing Receivables**

*Financing Receivables* At May 2, 2008, our financing receivables balance was \$1.9 billion, of which \$1.3 billion represents customer receivables. Customer receivables decreased 19% from our balance at February 1, 2008. This decrease in customer receivables resulted from a reduction in receivables due from CIT in connection with promotional programs and an increase in receivables sold to the conduits. As of May 2, 2008, and February 1, 2008, the receivable due from CIT in connection with specified promotional programs was \$96 million and \$444 million, respectively. This decrease in the CIT receivables is primarily due to the liquidation of CIT receivables and funding lower volumes of promotional receivables through CIT. As our funding rights increase, we expect continued growth in customer financing receivables, subject to the outcome of the strategic review noted below. To manage this growth, we will continue to balance the use of our own working capital and other sources of liquidity. The key decision factors in the analysis are the cost of funds, required credit enhancements for receivables sold to the conduits, and the ability to access the capital markets. See Note 5 of Notes to Condensed Consolidated Financial Statements included in Part I Item 1 Financial Statements for additional information about our financing receivables and our promotional programs.

Given the continued volatility in the credit markets, we are closely monitoring all of our financing receivables and are actively pursuing strategies to mitigate potential balance sheet risk. We closely monitor our portfolio performance and have invested in credit risk management resources, which allow us to constantly monitor and evaluate credit risk. During Fiscal 2008 and the first quarter of Fiscal 2009, we took underwriting actions, including reducing our credit approval rate of subprime customers, in order to protect our portfolio from the deteriorating credit environment. We continue to assess our portfolio risk and take additional underwriting actions as we deem necessary. Subprime consumer receivables comprise less than 20% of the net customer financing receivables balance at May 2, 2008.

In the first quarter of Fiscal 2009, we continued to experience increased financing receivable credit losses, consistent with trends in the financial services industry. We maintain an allowance for losses to cover probable financing receivable credit losses. The allowance for losses is determined based on various factors, including historical experience, past due receivables, receivable type, and customer risk profile. Substantial changes in the economic environment or any of the factors mentioned above could change the expectation of anticipated credit losses. Based on our assessment of the customer financing receivables and the associated risks, we believe that we are adequately reserved. As of May 2, 2008, and February 1, 2008, the allowance for financing receivable losses was \$93 million and \$96 million, respectively. A 10% change in this allowance would not be material to our consolidated results. See

Note 5 of Notes to Condensed Consolidated Financial Statements included in Part I Item 1 Financial Statements for additional information.

We announced on March 31, 2008, that we are undertaking a strategic assessment of ownership alternatives for DFS financing activities. The assessment will primarily focus on the consumer and small-and-medium business revolving credit financing receivables and operations in the U.S., but may also include commercial leasing.

## **Table of Contents**

The outcome of the assessment will depend on the customer, capital, and economic impact of alternative ownership structures. It is possible the assessment will result in no change to the ownership and/or operating structure. We expect to complete our assessment in the third quarter of Fiscal 2009.

### **Off-Balance Sheet Arrangements**

*Asset Securitization* During the first quarter of Fiscal 2009, we continued to sell customer receivables to unconsolidated qualifying special purpose entities. The qualifying special purpose entities are bankruptcy remote legal entities with assets and liabilities separate from ours. The sole purpose of the qualifying special purpose entities is to facilitate the funding of customer receivables in the capital markets. Once sold, these receivables are off-balance sheet. We determined the amount of receivables to securitize based on our funding requirements in conjunction with specific selection criteria designed for the transaction.

Off-balance sheet securitizations involve the transfer of customer receivables to unconsolidated qualifying special purpose entities that are accounted for as a sale in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, ( SFAS 140 ). Upon the sale of the customer receivables, we recognize a gain on the sale and retain an interest in the assets sold. The unconsolidated qualifying special purpose entities have entered into financing arrangements with various multi-seller conduits that, in turn, issue asset-backed debt securities in the capital markets. During the three-month periods ended May 2, 2008, and May 4, 2007, we sold \$421 million and \$296 million, respectively, of customer receivables to unconsolidated qualifying special purpose entities. The principal balance of the securitized receivables at May 2, 2008, and February 1, 2008, was \$1.4 billion and \$1.2 billion, respectively.

We provide credit enhancement to the securitization in the form of over-collateralization. Receivables transferred to the qualified special purpose entities exceed the level of debt issued. We retain the right to receive collections for assets securitized exceeding the amount required to pay interest, principal, and other fees and expenses (referred to as retained interest). Our retained interest in the securitizations is determined by calculating the present value of these excess cash flows over the expected duration of the transactions. Our risk of loss related to securitized receivables is limited to the amount of our retained interest. We service securitized contracts and earn a servicing fee. Our securitization transactions generally do not result in servicing assets and liabilities, as the contractual fees are adequate compensation based on fair market value.

In estimating the value of the retained interest, we make a variety of financial assumptions, including pool credit losses, payment rates, and discount rates. These assumptions are supported by both our historical experience and anticipated trends relative to the particular receivable pool. We review our investments in retained interests periodically for impairment, based on their estimated fair value. All gains and losses are recognized in income immediately. Retained interest balances and assumptions are disclosed in Note 5 of Notes to Condensed Consolidated Financial Statements included in Part I Item 1 Financial Statements.

Our securitization programs contain standard structural features related to the performance of the securitized receivables. These structural features include defined credit losses, delinquencies, average credit scores, and excess collections above or below specified levels. In the event one or more of these features are met and we are unable to restructure the program, no further funding of receivables will be permitted, and the timing of expected retained interest cash flows will be delayed, which would impact the valuation of our retained interest. Should these events occur, we do not expect a material adverse effect on the valuation of the retained interest or on our ability to securitize financing receivables.

Current capital markets are experiencing an unusual period of volatility and reduced liquidity that we expect will continue to increase costs and credit enhancements required for funding of financial assets. Our exposure to the capital



markets will increase as we continue to fund additional customer receivables. We do not expect current capital market conditions to limit our ability to access liquidity for funding customer receivables in the future, as we continue to find funding sources in the capital markets.

**Table of Contents****Liquidity and Capital Commitments***Liquidity*

Our cash balances are held in numerous locations throughout the world, including substantial amounts held outside of the U.S.; however, the majority of our cash and investments that are located outside of the U.S. are denominated in the U.S. dollar. Most of the amounts held outside of the U.S. could be repatriated to the U.S., but under current law, would be subject to U.S. federal income taxes, less applicable foreign tax credits. In some countries repatriation of certain foreign balances is restricted by local laws. We have provided for the U.S. federal tax liability on these amounts for financial statement purposes, except for foreign earnings that are considered indefinitely reinvested outside of the U.S. Although we have no intention to do so, repatriation could result in additional U.S. federal income tax payments in future years. We utilize a variety of tax planning and financing strategies with the objective of having our worldwide cash available in the locations in which it is needed.

We use cash generated by operations as our primary source of liquidity and believe that internally generated cash flows are sufficient to support business operations driven mainly by our profitability, efficient cash conversion cycle, and the growth in our deferred service offerings. However, to further supplement domestic liquidity, promote an efficient capital structure, and provide us with additional flexibility, we issued \$1.5 billion of long-term unsecured notes and increased our commercial paper program and related revolving credit facility by \$500 million to \$1.5 billion in April 2008. We are increasingly relying upon access to the capital markets to provide sources of liquidity in the U.S. for general corporate purposes, including share repurchases. Although we believe that we will be able to maintain sufficient access to the capital markets, changes in current market conditions, movement in our credit ratings, deterioration in our business performance, or adverse changes in the economy could limit our access to these markets. We intend to establish the appropriate debt levels based upon cash flow expectations, overall cost of capital, cash requirements for operations, and discretionary spending including items such as share repurchases and acquisitions. We may access the capital markets during the remainder Fiscal 2009 dependent on our requirements and market conditions. We do not believe that the overall credit concerns in the markets would impede our ability to access the capital markets in the future because of the overall strength of our financial position.

We ended the first quarter of Fiscal 2009 with \$9.8 billion in cash, cash equivalents, and investments, compared to \$12.2 billion at the end of the first quarter of Fiscal 2008. The decrease in cash and investments from the first quarter of Fiscal 2008 was a result of spending \$5.0 billion on share repurchases and \$2.4 billion on strategic acquisitions, partially offset by issuing \$1.5 billion in long-term debt and internally generated cash flows. We continue to evaluate our investments for any other-than-temporary impairments, and as of May 2, 2008, no other-than-temporary impairments were recorded based on a review of factors consistent with those disclosed in Note 2 of Notes to Consolidated Financial Statements under Part II Item 8 Financial Statements and Supplementary Data in our Annual Report on Form 10-K for the fiscal year ended February 1, 2008.

In the first quarter of Fiscal 2009, we generated cash flows from operations of \$143 million, compared to an outflow of \$99 million in the first quarter of Fiscal 2008. The following table summarizes the results of our Condensed Consolidated Statements of Cash Flows for the three-month periods ended May 2, 2008, and May 4, 2007:

<b>Three Months Ended</b>	
<b>May 2,</b>	<b>May 4,</b>
<b>2008</b>	<b>2007</b>
<b>(in millions)</b>	

*Net cash flow provided by (used in):*

Edgar Filing: DELL INC - Form 10-Q/A

Operating activities	\$	143	\$	(99)
Investing activities		(30)		(207)
Financing activities		387		(13)
Effect of exchange rate changes on cash and cash equivalents		9		33
Net increase (decrease) in cash and cash equivalents	\$	509	\$	(286)

*Operating Activities* Cash provided by operating activities during the three-month period ended May 2, 2008, was \$143 million, compared to cash used in operating activities of \$99 million during the first quarter of Fiscal 2008. The increase in operating cash flows was primarily led by improved working capital management.

**Table of Contents**

Although our cash conversion cycle deteriorated from February 1, 2008, our direct model allows us to maintain an efficient cash conversion cycle, which compares favorably with that of others in our industry. The following table presents the components of our cash conversion cycle at May 2, 2008, and February 1, 2008:

	<b>May 2, 2008</b>	<b>February 1, 2008</b>
Days of sales outstanding <sup>(a)</sup>	36	36
Days of supply in inventory <sup>(b)</sup>	9	8
Days in accounts payable <sup>(c)</sup>	(75)	(80)
Cash conversion cycle	(30)	(36)

(a) ( DSO ) calculates the average collection period of our receivables. DSO is based on the ending net trade receivables and the most recent quarterly revenue for each period. DSO also includes the effect of product costs related to customer shipments not yet recognized as revenue that are classified in other current assets. DSO is calculated by adding accounts receivable, net of allowance for doubtful accounts, and customer shipments in transit and dividing that sum by average net revenue per day for the current quarter (90 days). At both May 2, 2008, and February 1, 2008, DSO and days of customer shipments not yet recognized were 33 and 3 days.

(b) Days of supply in inventory ( DSI ) measures the average number of days from procurement to sale of our product. DSI is based on ending inventory and most recent quarterly cost of sales for each period. DSI is calculated by dividing inventory by average cost of goods sold per day for the current quarter (90 days).

(c) Days in accounts payable ( DPO ) calculates the average number of days our payables remain outstanding before payment. DPO is based on ending accounts payable and most recent quarterly cost of sales for each period. DPO is calculated by dividing accounts payable by average cost of goods sold per day for the current quarter (90 days).

Our cash conversion cycle worsened by six days at May 2, 2008, from February 1, 2008. This deterioration was driven by a five day decrease in DPO. The decrease in DPO was primarily due to a shift away from suppliers with extended payment terms and the timing of purchases from and payments to suppliers during the first quarter of Fiscal 2009 as compared to the fourth quarter of Fiscal 2008. In addition, DSI increased by one day due to an increase in strategic components and materials purchases.

We defer the cost of revenue associated with customer shipments not yet recognized as revenue until they are delivered. These deferred costs are included in our reported DSO because we believe it presents a more accurate presentation of our DSO and cash conversion cycle. These deferred costs are recorded in other current assets in our Condensed Consolidated Statements of Financial Position and totaled \$484 million and \$519 million at May 2, 2008, and February 1, 2008, respectively.

We believe that we will continue to experience a cash conversion cycle in the low negative 30 day range given the shift in our business model with retail expansion in emerging countries and our changing manufacturing and supplier infrastructure.

*Investing Activities* Cash used in investing activities for the three-month period ended May 2, 2008, was \$30 million, compared to cash used in investing activities of \$207 million for the same period last year. Cash generated or used in investing activities principally consists of net maturities and sales or purchases of investments; net capital expenditures for property, plant, and equipment; and cash used to fund strategic acquisitions, which was approximately \$170 million in the first quarter of Fiscal 2009. In the first quarter of Fiscal 2009 as compared to the prior year, we re-invested a lower amount of our proceeds from the maturity or sales of investments for cash payments made in connection with acquisitions and to pay the principal on the Senior Notes of \$200 million that matured in April 2008 as discussed in Note 11 of Notes to Condensed Consolidated Financial Statements included in Part I Item 1 Financial Statements.

*Financing Activities* Cash sourced from financing activities during the three-month period ended May 2, 2008, was \$387 million, compared to use of \$13 million during the same period last year. The year-over-year increase in cash from financing activities is due primarily to the proceeds from the issuance of long-term debt of \$1.5 billion, offset by repurchase of our common stock as our share repurchase program was reinstated during the fourth quarter of Fiscal 2008 after being suspended for the majority of Fiscal 2008. During the first quarter of Fiscal 2009, we repurchased approximately 52 million shares at an aggregate cost of \$1.0 billion; no shares were repurchased

## **Table of Contents**

related to the program during the first quarter of Fiscal 2008. We also paid the principal on the Senior Notes of \$200 million that matured in April 2008.

We also have a commercial paper program that allows us to issue short-term unsecured notes in an aggregate amount not to exceed \$1.5 billion. We use the proceeds for general corporate purposes. At May 2, 2008, there was \$101 million outstanding under the commercial paper program and no advances under the supporting credit facility. See Note 11 of Notes to Condensed Consolidated Financial Statements included in Part I Item 1 Financial Statements for further discussion on our long-term debt and commercial paper program.

### *Capital Commitments*

*Redeemable Common Stock* In prior years, we inadvertently failed to register with the SEC the issuance of some shares under certain employee benefit plans. As a result, certain purchasers of common stock pursuant to those plans may have the right to rescind their purchases for an amount equal to the purchase price paid for the shares, plus interest from the date of purchase. At May 2, 2008, and February 1, 2008, we have classified approximately 4 million shares (\$92 million) and 4 million shares (\$94 million), respectively, that are subject to potential rescission rights outside of stockholders' equity because the redemption features are not within our control. No shareholder has exercised these rescission rights to date. We may also be subject to civil and other penalties by regulatory authorities as a result of the failure to register. These shares have always been treated as outstanding for financial reporting purposes. We intend to make a registered rescission offer to eligible plan participants.

*Share Repurchase Program* We have a share repurchase program that authorizes us to purchase shares of common stock in order to increase shareholder value and manage dilution resulting from shares issued under our equity compensation plans. However, we do not currently have a policy that requires the repurchase of common stock in conjunction with share-based payment arrangements.

We typically repurchase shares of common stock through a systematic program of open market purchases. During the first quarter of Fiscal 2009, we repurchased approximately 52 million shares at an aggregate cost of \$1.0 billion; no shares were repurchased related to the program during the first quarter of Fiscal 2008. Our share repurchase program was reinstated during the fourth quarter of Fiscal 2008 after being suspended for the majority of Fiscal 2008. For more information regarding share repurchases, see Part II Item 2 Unregistered Sales of Equity Securities and Use of Proceeds.

*Capital Expenditures* During the three-month period ended May 2, 2008, we spent approximately \$122 million on property, plant, and equipment primarily on our global expansion efforts and infrastructure investments in order to support future growth. Product demand and mix, as well as ongoing efficiencies in operating and information technology infrastructure, influence the level and prioritization of our capital expenditures. Capital expenditures for Fiscal 2009, related to our continued expansion worldwide, are currently expected to reach approximately \$850 million, which is less than last year. These expenditures are expected to be funded from our cash flows from operating activities.

*Restricted Cash* Pursuant to an agreement between DFS and CIT, we are required to maintain escrow cash accounts that are held as recourse reserves for credit losses, performance fee deposits related to our private label credit card, and deferred servicing revenue. Restricted cash in the amount of \$303 million and \$294 million is included in other current assets at May 2, 2008, and February 1, 2008, respectively.

### *Contractual Cash Obligations*

*Purchase Obligations* Our purchase obligations increased from \$893 million at February 1, 2008, to approximately \$4.1 billion at May 2, 2008. The increase is primarily due to us entering into longer-term purchase commitments with selected suppliers for certain commodities in order to ensure supply of select key components at the most favorable pricing. The agreements run through the end of Fiscal 2009 and allow for some variation in the units we are required to purchase. The purchase commitment approximates \$3.3 billion for the remainder of Fiscal 2009.

*Debt* In April 1998, Dell issued \$200 million 6.55% fixed rate senior notes with the principal balance due April 15, 2008 (the Senior Notes ), and \$300 million 7.10% fixed rate senior debentures with the principal balance

**Table of Contents**

due April 15, 2028 (the Senior Debentures ). Interest on the Senior Notes and Senior Debentures is paid semi-annually, on April 15 and October 15. On April 15, 2008, we repaid the principal balance of our \$200 million fixed rate senior notes. On April 17, 2008, we issued \$1.5 billion of long-term unsecured notes in three tranches: \$600 million aggregate principal amount of 4.70% Notes due 2013, \$500 million aggregate principal amount of 5.65% Notes due 2018, and \$400 million aggregate principal amount of 6.50% Notes due 2038. Interest is payable semi-annually on April 15 and October 15.

*Recently Issued and Adopted Accounting Pronouncements*

See Note 1 of Notes to Condensed Consolidated Financial Statements included in Part I Item 1 Financial Statements for a description of recently issued accounting pronouncements, including the expected dates of adoption and estimated effects on our results of operations, financial position, and cash flows.

As highlighted in Note 6 of Notes to Condensed Consolidated Financial Statements included in Part I Item 1 Financial Statements, we adopted the effective provisions of SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ) as amended by Financial Accounting Standards Board ( FASB ) Staff Position ( FSP ) FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* and FSP FAS 157-2, *Effective Date of FASB Statement No. 157* on February 2, 2008. The adoption of this statement did not have a material effect on the consolidated financial statements for the first quarter of Fiscal 2009. The amount of assets and liabilities measured at fair value on a recurring basis based on unobservable inputs (Level 3) are not significant relative to our balance sheet.

**PART II OTHER INFORMATION**

**ITEM 6. Exhibits**

(a) *Exhibits* See Index to Exhibits below.



**Table of Contents**

**SIGNATURE**

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.

DELL INC.

/s/ THOMAS W. SWEET

Date: June 27, 2008

Thomas W. Sweet  
*Vice President, Corporate Finance and  
Chief Accounting Officer*  
(On behalf of the registrant and as  
principal accounting officer)

**Table of Contents**

**INDEX TO EXHIBITS**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
31.1	Certification of Michael S. Dell, President and Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Brian T. Gladden, Senior Vice President and Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications of Michael S. Dell, Chairman and Chief Executive Officer, and Brian T. Gladden, Senior Vice President and 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.

Furnished herewith.