

DELL INC.
Condensed Consolidated Statement of Income and Related Financial Highlights
(in millions, except per share data and percentages)
(unaudited)

| | Three Months Ended | | | % Growth Rates | |
|--|---------------------|------------------|---------------------|----------------|------------|
| | October 28, 2011 | July 29, 2011 | October 29, 2010 | Sequential | Yr. to Yr. |
| Net revenue | | | | | |
| Products..... | \$ 12,312 | \$ 12,610 | \$ 12,520 | (2%) | (2%) |
| Services, including software related | 3,053 | 3,048 | 2,874 | 0% | 6% |
| Net revenue | <u>15,365</u> | <u>15,658</u> | <u>15,394</u> | (2%) | 0% |
| Cost of net revenue | | | | | |
| Products..... | 9,797 | 9,935 | 10,415 | (1%) | (6%) |
| Services, including software related | 2,099 | 2,198 | 1,976 | (5%) | 6% |
| Total cost of net revenue..... | <u>11,896</u> | <u>12,133</u> | <u>12,391</u> | (2%) | (4%) |
| Gross margin | 3,469 | 3,525 | 3,003 | (2%) | 16% |
| Selling, general and administrative | 2,107 | 2,174 | 1,816 | (3%) | 16% |
| Research, development and engineering | 220 | 205 | 163 | 7% | 35% |
| Total operating expenses..... | <u>2,327</u> | <u>2,379</u> | <u>1,979</u> | (2%) | 18% |
| Operating income | 1,142 | 1,146 | 1,024 | 0% | 12% |
| Interest and other, net ⁽¹⁾ | (70) | (55) | 52 | (28%) | (235%) |
| Income before income taxes..... | 1,072 | 1,091 | 1,076 | (2%) | 0% |
| Income tax provision | 179 | 201 | 254 | (11%) | (29%) |
| Net income | <u>\$ 893</u> | <u>\$ 890</u> | <u>\$ 822</u> | 0% | 9% |
| Earnings per share: | | | | | |
| Basic | \$ 0.49 | \$ 0.48 | \$ 0.42 | 2% | 17% |
| Diluted | <u>\$ 0.49</u> | <u>\$ 0.48</u> | <u>\$ 0.42</u> | 2% | 17% |
| Weighted average shares outstanding: | | | | | |
| Basic | 1,813 | 1,858 | 1,939 | (2%) | (6%) |
| Diluted | 1,828 | 1,871 | 1,949 | (2%) | (6%) |
| <u>Percentage of Total Net Revenue:</u> | | | | | |
| Gross margin..... | 22.6% | 22.5% | 19.5% | | |
| Selling, general and administrative..... | 13.8% | 13.9% | 11.8% | | |
| Research and development..... | 1.4% | 1.3% | 1.0% | | |
| Operating expenses..... | 15.2% | 15.2% | 12.8% | | |
| Operating income..... | 7.4% | 7.3% | 6.7% | | |
| Income before income taxes..... | 7.0% | 7.0% | 7.0% | | |
| Net income..... | 5.8% | 5.7% | 5.3% | | |
| Income tax rate | 16.7% | 18.4% | 23.6% | | |
| <u>Net Revenue by Product Category:</u> | | | | | |
| Servers and Networking | \$ 2,089 | \$ 2,054 | \$ 1,844 | 2% | 13% |
| Storage..... | 460 | 502 | 543 | (8%) | (15%) |
| Services | 2,123 | 2,036 | 1,924 | 4% | 10% |
| Software and Peripherals | 2,528 | 2,569 | 2,579 | (2%) | (2%) |
| Mobility..... | 4,750 | 4,761 | 4,858 | 0% | (2%) |
| Desktop PCs..... | 3,415 | 3,736 | 3,646 | (9%) | (6%) |
| Consolidated net revenue..... | <u>\$ 15,365</u> | <u>\$ 15,658</u> | <u>\$ 15,394</u> | (2%) | 0% |
| <u>Percentage of Total Net Revenue:</u> | | | | | |
| Servers and Networking | 14% | 13% | 12% | | |
| Storage..... | 3% | 3% | 3% | | |
| Services | 14% | 13% | 12% | | |
| Software and Peripherals | 16% | 16% | 17% | | |
| Mobility..... | 31% | 31% | 32% | | |
| Desktop PCs..... | 22% | 24% | 24% | | |
| <u>Net Revenue by Global Segment:</u> | | | | | |
| Large Enterprise..... | \$ 4,487 | \$ 4,584 | \$ 4,326 | (2%) | 4% |
| Public..... | 4,375 | 4,457 | 4,442 | (2%) | (2%) |
| Small and Medium Business..... | 3,712 | 3,709 | 3,665 | 0% | 1% |
| Consumer | 2,791 | 2,908 | 2,961 | (4%) | (6%) |
| Consolidated net revenue..... | <u>\$ 15,365</u> | <u>\$ 15,658</u> | <u>\$ 15,394</u> | (2%) | 0% |
| <u>Percentage of Total Net Revenue:</u> | | | | | |
| Large Enterprise..... | 29% | 29% | 28% | | |
| Public..... | 29% | 28% | 29% | | |
| Small and Medium Business..... | 24% | 24% | 24% | | |
| Consumer | 18% | 19% | 19% | | |
| <u>Consolidated Operating Income:</u> | | | | | |
| Large Enterprise..... | \$ 441 | \$ 448 | \$ 400 | | |
| Public..... | 463 | 484 | 451 | | |
| Small and Medium Business..... | 386 | 404 | 391 | | |
| Consumer | 76 | 73 | - | | |
| Segment operating income..... | 1,366 | 1,409 | 1,242 | | |
| Severance and facility actions | - | - | (31) | | |
| Broad based long-term incentives | (78) | (81) | (75) | | |
| Amortization of intangible assets..... | (100) | (95) | (89) | | |
| Acquisition-related..... | (46) | (87) | (23) | | |
| Consolidated operating income | <u>\$ 1,142</u> | <u>\$ 1,146</u> | <u>\$ 1,024</u> | | |

Note: Percentage growth rates and ratios are calculated based on underlying data in thousands.

⁽¹⁾Interest and other, net for the three months ended October 29, 2010 includes Dell's receipt of a \$72 million merger termination fee.

DELL INC.
Condensed Consolidated Statement of Income and Related Financial Highlights
(in millions, except per share data and percentages)
(unaudited)

| | Nine Months Ended | | % Growth Rates Yr. to Yr. |
|--|---------------------|---------------------|------------------------------|
| | October 28, 2011 | October 29, 2010 | |
| Net revenue | | | |
| Products..... | \$ 36,981 | \$ 37,251 | (1%) |
| Services, including software related | 9,059 | 8,551 | 6% |
| Net revenue | <u>46,040</u> | <u>45,802</u> | 1% |
| Cost of net revenue | | | |
| Products..... | 29,168 | 31,731 | (8%) |
| Services, including software related | 6,446 | 5,966 | 8% |
| Total cost of net revenue..... | <u>35,614</u> | <u>37,697</u> | (6%) |
| Gross margin | 10,426 | 8,105 | 29% |
| Selling, general and administrative | 6,306 | 5,325 | 18% |
| Research, development and engineering | 620 | 492 | 26% |
| Total operating expenses..... | <u>6,926</u> | <u>5,817</u> | 19% |
| Operating income | 3,500 | 2,288 | 53% |
| Interest and other, net ⁽¹⁾ | (167) | (65) | (157%) |
| Income before income taxes..... | 3,333 | 2,223 | 50% |
| Income tax provision | 605 | 515 | 17% |
| Net income | <u>\$ 2,728</u> | <u>\$ 1,708</u> | 60% |
| Earnings per share: | | | |
| Basic | \$ 1.47 | \$ 0.88 | 67% |
| Diluted | <u>\$ 1.46</u> | <u>\$ 0.87</u> | 68% |
| Weighted average shares outstanding: | | | |
| Basic | 1,860 | 1,950 | (5%) |
| Diluted | 1,874 | 1,961 | (4%) |
| <u>Percentage of Total Net Revenue:</u> | | | |
| Gross margin..... | 22.6% | 17.7% | |
| Selling, general and administrative..... | 13.7% | 11.6% | |
| Research and development..... | 1.3% | 1.1% | |
| Operating expenses..... | 15.0% | 12.7% | |
| Operating income..... | 7.6% | 5.0% | |
| Income before income taxes..... | 7.2% | 4.9% | |
| Net income..... | 5.9% | 3.7% | |
| Income tax rate | 18.2% | 23.2% | |
| <u>Net Revenue by Product Category:</u> | | | |
| Servers and Networking | \$ 6,116 | \$ 5,519 | 11% |
| Storage..... | 1,443 | 1,721 | (16%) |
| Services | 6,143 | 5,730 | 7% |
| Software and Peripherals | 7,664 | 7,610 | 1% |
| Mobility..... | 14,227 | 14,121 | 1% |
| Desktop PCs..... | 10,447 | 11,101 | (6%) |
| Consolidated net revenue..... | <u>\$ 46,040</u> | <u>\$ 45,802</u> | 1% |
| <u>Percentage of Total Net Revenue:</u> | | | |
| Servers and Networking | 13% | 12% | |
| Storage..... | 3% | 4% | |
| Services | 13% | 12% | |
| Software and Peripherals | 17% | 17% | |
| Mobility..... | 31% | 31% | |
| Desktop PCs..... | 23% | 24% | |
| <u>Net Revenue by Global Segment:</u> | | | |
| Large Enterprise..... | \$ 13,548 | \$ 13,121 | 3% |
| Public..... | 12,599 | 12,878 | (2%) |
| Small and Medium Business..... | 11,189 | 10,724 | 4% |
| Consumer | 8,704 | 9,079 | (4%) |
| Consolidated net revenue..... | <u>\$ 46,040</u> | <u>\$ 45,802</u> | 1% |
| <u>Percentage of Total Net Revenue:</u> | | | |
| Large Enterprise..... | 30% | 29% | |
| Public..... | 27% | 28% | |
| Small and Medium Business..... | 24% | 23% | |
| Consumer | 19% | 20% | |
| <u>Consolidated Operating Income:</u> | | | |
| Large Enterprise..... | \$ 1,393 | \$ 971 | |
| Public..... | 1,317 | 1,118 | |
| Small and Medium Business..... | 1,253 | 1,027 | |
| Consumer | 285 | (4) | |
| Segment operating income..... | 4,248 | 3,112 | |
| Severance and facility actions | (19) | (112) | |
| Broad based long-term incentives | (256) | (249) | |
| Amortization of intangible assets..... | (287) | (264) | |
| Acquisition-related..... | (186) | (59) | |
| Other ⁽²⁾ | - | (140) | |
| Consolidated operating income | <u>\$ 3,500</u> | <u>\$ 2,288</u> | |

Note: Percentage growth rates and ratios are calculated based on underlying data in thousands.

⁽¹⁾ Interest and other, net for the nine months ended October 29, 2010 includes Dell's receipt of a \$72 million merger termination fee.

⁽²⁾ Other for the nine months ended October 29, 2010 includes amounts for the \$100 million settlement of the SEC investigation and a \$40 million settlement for a securities litigation matter.

DELL INC.
Condensed Consolidated Statement of Financial Position and Related Financial Highlights
(in millions, except for "Ratios")
(unaudited)

| | October 28, 2011 | July 29, 2011 | October 29, 2010 |
|--|-----------------------------|--------------------------|-----------------------------|
| <u>Assets:</u> | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 13,293 | \$ 14,623 | \$ 12,889 |
| Short-term investments | 545 | 509 | 492 |
| Accounts receivable, net | 6,690 | 6,752 | 6,407 |
| Financing receivables, net | 3,326 | 3,385 | 3,588 |
| Inventories, net | 1,397 | 1,346 | 1,294 |
| Other current assets..... | 3,005 | 3,043 | 3,118 |
| Total current assets | <u>28,256</u> | <u>29,658</u> | <u>27,788</u> |
| Property, plant and equipment, net | 2,123 | 2,064 | 1,948 |
| Investments | 2,183 | 1,048 | 662 |
| Long-term financing receivables, net | 1,279 | 1,252 | 709 |
| Goodwill | 5,943 | 5,431 | 4,259 |
| Purchased intangible assets, net | 1,957 | 1,866 | 1,553 |
| Other non-current assets | 302 | 285 | 235 |
| Total assets | <u>\$ 42,043</u> | <u>\$ 41,604</u> | <u>\$ 37,154</u> |
| <u>Liabilities and Equity:</u> | | | |
| Current liabilities: | | | |
| Short-term debt..... | \$ 1,831 | \$ 1,316 | \$ 826 |
| Accounts payable | 11,107 | 11,628 | 11,278 |
| Accrued and other | 3,816 | 3,823 | 3,898 |
| Short-term deferred services revenue | 3,465 | 3,427 | 3,093 |
| Total current liabilities | <u>20,219</u> | <u>20,194</u> | <u>19,095</u> |
| Long-term debt | 6,430 | 6,424 | 5,168 |
| Long-term deferred services revenue | 3,744 | 3,723 | 3,447 |
| Other non-current liabilities | 2,987 | 2,927 | 2,631 |
| Total liabilities | <u>33,380</u> | <u>33,268</u> | <u>30,341</u> |
| Stockholders' equity | 8,663 | 8,336 | 6,813 |
| Total liabilities and equity | <u>\$ 42,043</u> | <u>\$ 41,604</u> | <u>\$ 37,154</u> |
| <u>Ratios:</u> | | | |
| Days of sales outstanding ⁽¹⁾ | 42 | 42 | 41 |
| Days supply in inventory | 11 | 10 | 9 |
| Days in accounts payable | (84) | (86) | (82) |
| Cash conversion cycle | <u>(31)</u> | <u>(34)</u> | <u>(32)</u> |
| Average total revenue/unit (approximate) | \$ 1,390 | \$ 1,350 | \$ 1,380 |

Note: Ratios are calculated based on underlying data in thousands.

⁽¹⁾ Days of sales outstanding ("DSO") is based on the ending net trade receivables and most recent quarterly revenue for each period. DSO includes the effect of product costs related to customer shipments not yet recognized as revenue that are classified in the other current assets. At October 28, 2011, July 29, 2011, and October 29, 2010, DSO and days of customer shipments not yet recognized were 39 and 3 days, 39 and 3 days, 38 and 3 days, respectively.

DELL INC.
Condensed Consolidated Statements of Cash Flows
(in millions, unaudited)

| | <u>Three Months Ended</u> | | <u>Nine Months Ended</u> | |
|---|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | <u>October 28,</u> <u>2011</u> | <u>October 29,</u> <u>2010</u> | <u>October 28,</u> <u>2011</u> | <u>October 29,</u> <u>2010</u> |
| Cash flows from operating activities: | | | | |
| Net income..... | \$ 893 | \$ 822 | \$ 2,728 | \$ 1,708 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 241 | 234 | 687 | 745 |
| Stock-based compensation | 80 | 69 | 261 | 225 |
| Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies | (10) | (14) | (19) | 23 |
| Deferred Income Taxes | (35) | 20 | (91) | (35) |
| Provision for doubtful accounts - including financing receivables | 50 | 82 | 167 | 299 |
| Other | 46 | - | 46 | 4 |
| Changes in assets and liabilities, net of effects from acquisitions: | | | | |
| Accounts receivable | (95) | 308 | (190) | (588) |
| Financing receivables | (83) | (46) | (162) | (459) |
| Inventories | (15) | 77 | (46) | (241) |
| Other assets | 16 | 707 | 223 | 743 |
| Accounts payable | (492) | (1,306) | (231) | (175) |
| Deferred services revenue..... | 137 | 137 | 540 | 402 |
| Accrued and other liabilities | 118 | (177) | (223) | (165) |
| Change in cash from operating activities | <u>851</u> | <u>913</u> | <u>3,690</u> | <u>2,486</u> |
| Cash flows from investing activities: | | | | |
| Investments: | | | | |
| Purchases | (1,638) | (123) | (2,419) | (1,186) |
| Maturities and sales | 424 | 346 | 856 | 1,184 |
| Capital expenditures | (214) | (93) | (510) | (284) |
| Proceeds from sale of facility and land..... | - | - | 12 | 18 |
| Purchase of financing receivables..... | - | (430) | - | (430) |
| Collections on purchased financing receivables..... | 69 | 20 | 204 | 20 |
| Acquisition of business, net of cash received | (663) | (24) | (2,564) | (246) |
| Change in cash from investing activities | <u>(2,022)</u> | <u>(304)</u> | <u>(4,421)</u> | <u>(924)</u> |
| Cash flows from financing activities: | | | | |
| Repurchase of common stock | (600) | (200) | (2,180) | (600) |
| Issuance of common stock under employee plans..... | 5 | 2 | 34 | 11 |
| Issuance (repayment) of commercial paper (maturity 90 days or less), net | - | (900) | - | (176) |
| Proceeds from debt | 884 | 1,945 | 3,317 | 2,554 |
| Repayments of debt | (362) | (296) | (1,055) | (1,115) |
| Other | 1 | - | 3 | 2 |
| Change in cash from financing activities | <u>(72)</u> | <u>551</u> | <u>119</u> | <u>676</u> |
| Effect of exchange rate changes on cash and cash equivalents..... | (87) | 35 | (8) | 16 |
| Change in cash and cash equivalents..... | (1,330) | 1,195 | (620) | 2,254 |
| Cash and cash equivalents at beginning of period..... | 14,623 | 11,694 | 13,913 | 10,635 |
| Cash and cash equivalents at end of period..... | <u>\$ 13,293</u> | <u>\$ 12,889</u> | <u>\$ 13,293</u> | <u>\$ 12,889</u> |

SUPPLEMENTAL NON-GAAP FINANCIAL MEASURES

The tables on the following pages set forth, for the periods indicated, a reconciliation of non-GAAP gross margin, non-GAAP operating expenses, non-GAAP operating income, non-GAAP net income, and non-GAAP earnings per share (collectively, the “non-GAAP financial measures”) to the most comparable GAAP financial measures. These non-GAAP financial measures may not be directly comparable to similarly titled measures reported by other companies. See “Use of Non-GAAP Financial Measures” following the tables for additional information regarding Dell’s reasons for including the non-GAAP financial measures and for material limitations with respect to the usefulness of these measures.

DELL INC.
Reconciliation of Non-GAAP Financial Measures
(in millions, except per share data and percentages)
(unaudited)

| | Three Months Ended | | | % Growth Rates | |
|---|---------------------|------------------|---------------------|----------------|------------|
| | October 28, 2011 | July 29, 2011 | October 29, 2010 | Sequential | Yr. to Yr. |
| GAAP gross margin..... | \$ 3,469 | \$ 3,525 | \$ 3,003 | (2%) | 16% |
| Non-GAAP adjustments: | | | | | |
| Amortization of intangibles..... | 77 | 74 | 71 | | |
| Severance and facility actions..... | - | - | 4 | | |
| Acquisition-related..... | - | 26 | - | | |
| Non-GAAP gross margin..... | <u>\$ 3,546</u> | <u>\$ 3,625</u> | <u>\$ 3,078</u> | (2%) | 15% |
| GAAP operating expenses..... | \$ 2,327 | \$ 2,379 | \$ 1,979 | (2%) | 18% |
| Non-GAAP adjustments: | | | | | |
| Amortization of intangibles..... | (23) | (21) | (18) | | |
| Severance and facility actions..... | - | - | (27) | | |
| Acquisition-related..... | (46) | (61) | (23) | | |
| Non-GAAP operating expenses..... | <u>\$ 2,258</u> | <u>\$ 2,297</u> | <u>\$ 1,911</u> | (2%) | 18% |
| GAAP operating income | \$ 1,142 | \$ 1,146 | \$ 1,024 | 0% | 12% |
| Non-GAAP adjustments: | | | | | |
| Amortization of intangibles..... | 100 | 95 | 89 | | |
| Severance and facility actions..... | - | - | 31 | | |
| Acquisition-related..... | 46 | 87 | 23 | | |
| Non-GAAP operating income..... | <u>\$ 1,288</u> | <u>\$ 1,328</u> | <u>\$ 1,167</u> | (3%) | 10% |
| GAAP net income..... | \$ 893 | \$ 890 | \$ 822 | 0% | 9% |
| Non-GAAP adjustments: | | | | | |
| Amortization of intangibles..... | 100 | 95 | 89 | | |
| Severance and facility actions..... | - | - | 31 | | |
| Acquisition-related..... | 46 | 87 | 23 | | |
| Other ⁽¹⁾ | - | - | (72) | | |
| Aggregate adjustment for income taxes..... | (56) | (66) | (18) | | |
| Non-GAAP net income..... | <u>\$ 983</u> | <u>\$ 1,006</u> | <u>\$ 875</u> | (2%) | 12% |
| GAAP earnings per share - diluted..... | \$ 0.49 | \$ 0.48 | \$ 0.42 | 2% | 17% |
| Non-GAAP adjustments per share - diluted..... | 0.05 | 0.06 | 0.03 | | |
| Non-GAAP earnings per share - diluted..... | <u>\$ 0.54</u> | <u>\$ 0.54</u> | <u>\$ 0.45</u> | 0% | 20% |
| GAAP Diluted WAS..... | 1,828 | 1,871 | 1,949 | | |
| <i>Percentage of Total Net Revenue:</i> | | | | | |
| GAAP gross margin..... | 22.6% | 22.5% | 19.5% | | |
| Non-GAAP adjustment..... | 0.5% | 0.7% | 0.5% | | |
| Non-GAAP gross margin..... | <u>23.1%</u> | <u>23.2%</u> | <u>20.0%</u> | | |
| GAAP operating expenses..... | 15.2% | 15.2% | 12.8% | | |
| Non-GAAP adjustment..... | (0.5%) | (0.5%) | (0.4%) | | |
| Non-GAAP operating expenses..... | <u>14.7%</u> | <u>14.7%</u> | <u>12.4%</u> | | |
| GAAP operating income..... | 7.4% | 7.3% | 6.7% | | |
| Non-GAAP adjustment..... | 1.0% | 1.2% | 0.9% | | |
| Non-GAAP operating income..... | <u>8.4%</u> | <u>8.5%</u> | <u>7.6%</u> | | |
| GAAP net income..... | 5.8% | 5.7% | 5.3% | | |
| Non-GAAP adjustment..... | 0.6% | 0.7% | 0.4% | | |
| Non-GAAP net income..... | <u>6.4%</u> | <u>6.4%</u> | <u>5.7%</u> | | |

Note: Percentage growth rates and ratios are calculated based on underlying data in thousands.

⁽¹⁾ Other for the three months ended October 29, 2010 consists of Dell's receipt of a \$72 million merger termination fee which on a GAAP basis is recorded in Interest and Other, Net.

DELL INC.
Reconciliation of Non-GAAP Financial Measures
(in millions, except per share data and percentages)
(unaudited)

| | Nine Months Ended | | % Growth Rates |
|---|---------------------|---------------------|----------------|
| | October 28, 2011 | October 29, 2010 | |
| GAAP gross margin..... | \$ 10,426 | \$ 8,105 | 29% |
| Non-GAAP adjustments: | | | |
| Amortization of intangibles..... | 222 | 209 | |
| Severance and facility actions..... | 5 | 47 | |
| Acquisition-related..... | 29 | 2 | |
| Non-GAAP gross margin..... | <u>\$ 10,682</u> | <u>\$ 8,363</u> | 28% |
| GAAP operating expenses..... | \$ 6,926 | \$ 5,817 | 19% |
| Non-GAAP adjustments: | | | |
| Amortization of intangibles..... | (65) | (55) | |
| Severance and facility actions..... | (14) | (65) | |
| Acquisition-related..... | (157) | (57) | |
| Other ⁽¹⁾ | - | (140) | |
| Non-GAAP operating expenses..... | <u>\$ 6,690</u> | <u>\$ 5,500</u> | 22% |
| GAAP operating income..... | \$ 3,500 | \$ 2,288 | 53% |
| Non-GAAP adjustments: | | | |
| Amortization of intangibles..... | 287 | 264 | |
| Severance and facility actions..... | 19 | 112 | |
| Acquisition-related..... | 186 | 59 | |
| Other ⁽¹⁾ | - | 140 | |
| Non-GAAP operating income..... | <u>\$ 3,992</u> | <u>\$ 2,863</u> | 39% |
| GAAP net income..... | \$ 2,728 | \$ 1,708 | 60% |
| Non-GAAP adjustments: | | | |
| Amortization of intangibles..... | 287 | 264 | |
| Severance and facility actions..... | 19 | 112 | |
| Acquisition-related..... | 186 | 59 | |
| Other ⁽¹⁾ | - | 68 | |
| Aggregate adjustment for income taxes..... | (181) | (123) | |
| Non-GAAP net income..... | <u>\$ 3,039</u> | <u>\$ 2,088</u> | 46% |
| GAAP earnings per share - diluted..... | \$ 1.46 | \$ 0.87 | 68% |
| Non-GAAP adjustments per share - diluted..... | 0.16 | 0.19 | |
| Non-GAAP earnings per share - diluted..... | <u>\$ 1.62</u> | <u>\$ 1.06</u> | 53% |
| GAAP Diluted WAS..... | 1,874 | 1,961 | |
| <i>Percentage of Total Net Revenue:</i> | | | |
| GAAP gross margin..... | 22.6% | 17.7% | |
| Non-GAAP adjustment..... | 0.6% | 0.6% | |
| Non-GAAP gross margin..... | <u>23.2%</u> | <u>18.3%</u> | |
| GAAP operating expenses..... | 15.0% | 12.7% | |
| Non-GAAP adjustment..... | (0.5%) | (0.7%) | |
| Non-GAAP operating expenses..... | <u>14.5%</u> | <u>12.0%</u> | |
| GAAP operating income..... | 7.6% | 5.0% | |
| Non-GAAP adjustment..... | 1.1% | 1.3% | |
| Non-GAAP operating income..... | <u>8.7%</u> | <u>6.3%</u> | |
| GAAP net income..... | 5.9% | 3.7% | |
| Non-GAAP adjustment..... | 0.7% | 0.9% | |
| Non-GAAP net income..... | <u>6.6%</u> | <u>4.6%</u> | |

Note: Percentage growth rates and ratios are calculated based on underlying data in thousands

⁽¹⁾ Other for the nine months ended October 29, 2010 includes amounts for the \$100 million settlement of the SEC investigation and a \$40 million settlement for a securities litigation matter, which are both recorded in operating expenses, offset by Dell's receipt of a \$72 million merger termination fee, which is recorded in Interest and Other, Net.

USE OF NON-GAAP FINANCIAL MEASURES

Dell uses non-GAAP financial measures to supplement the financial information presented on a GAAP basis. Dell believes that excluding certain items from Dell's GAAP results allows Dell's management to better understand Dell's consolidated financial performance from period to period and in relationship to the operating results of Dell's segments, as management does not believe that the excluded items are reflective of Dell's underlying operating performance. Dell also believes that excluding certain items from Dell's GAAP results allows Dell's management to better project Dell's future consolidated financial performance because Dell's forecasts are developed at a level of detail different from that used to prepare GAAP-based financial measures. Moreover, Dell believes these non-GAAP financial measures will provide investors with useful information to help them evaluate Dell's operating results by facilitating an enhanced understanding of Dell's operating performance, and enabling them to make more meaningful period to period comparisons. Non-GAAP operating income growth as projected for Fiscal 2012, which is a forward looking non-GAAP financial measure, excludes acquisition-related charges, and amortization of purchased intangible assets related to acquisitions, some of which Dell cannot forecast with certainty or accuracy due to their inherently indefinite and contingent nature, thereby preventing Dell from reconciling its projections to GAAP. The historical non-GAAP financial measures, as defined by Dell, represent the comparable GAAP measures adjusted to exclude these same items as well as amounts for severance and facility charges, which were incurred in periods prior to the second quarter of Fiscal 2012, the settlements related to the SEC investigation and a securities litigation matter, which were both incurred during the first quarter of Fiscal 2011, and a merger termination fee, which was received during the third quarter of Fiscal 2011. Dell provides more detail below regarding each of these items and our reasons for excluding them. In future fiscal periods, Dell expects that it may again exclude such items and may incur income and expenses similar to these excluded items. Accordingly, the exclusion of these items and other similar items in Dell's non-GAAP presentation should not be interpreted as implying that these items are non-recurring, infrequent, or unusual.

The non-GAAP financial measures for the periods indicated in the tables above reflect adjustments related to the following items:

- *Acquisition-related Costs* — Acquisition-related charges are expensed as incurred and consist primarily of retention payments, integration costs, and other costs. Starting in the second quarter of Fiscal 2012, all severance and facility charges related to acquisitions are also included in acquisition-related costs. Previously, these costs were included in a separate caption for severance and facility actions described below. Acquisition-related severance and facility costs were not significant in prior periods. Retention payments include stock-based compensation and cash incentives awarded to employees, which are recognized over the vesting period. Integration costs primarily include IT costs related to the integration of IT systems and processes, costs related to the integration of employees, costs related to full-time employees who are working on the integration, and consulting expenses. Acquisition-related charges are inconsistent in amount and are significantly impacted by the timing and nature of acquisitions. Therefore, although Dell may incur these types of expenses in connection with future acquisitions, Dell believes eliminating acquisition-related charges for purposes of calculating the non-GAAP financial measures facilitates a more meaningful evaluation of Dell's current operating performance and comparisons to Dell's past operating performance.
- *Amortization of Intangible Assets* — Amortization of purchased intangible assets consists primarily of amortization of customer relationships, acquired technology, non-compete covenants, and trade names purchased in connection with business acquisitions. Dell incurs charges relating to the amortization of these intangibles, and those charges are included in Dell's consolidated financial statements. Amortization charges for Dell's purchased intangible assets are inconsistent in amount and are significantly impacted by the timing and magnitude of Dell's acquisitions. Consequently, Dell excludes these charges for purposes of calculating the non-GAAP financial measures to facilitate a more meaningful evaluation of Dell's current operating performance and comparisons to Dell's past operating performance.

- *Severance and Facility Actions* — Severance and facility action costs primarily relate to facilities charges including accelerated depreciation and severance and benefits for employees terminated pursuant to actions taken as part of a comprehensive review of costs, which started in Fiscal 2009. These activities are substantially complete. As such, starting in the second quarter of Fiscal 2012, only charges for severance and facility actions associated with cost synergies related to strategic acquisitions are being excluded for the purposes of calculating the non-GAAP financial measures and will be included in acquisition-related costs discussed above. Dell excludes these severance and facility action costs for purposes of calculating the non-GAAP financial measures because it believes that these historical costs do not reflect expected future operating expenses and do not contribute to a meaningful evaluation of Dell's current operating performance or comparisons to Dell's past operating performance.
- *Other Fees and Settlements* — Dell also adjusts its GAAP results for certain fees and settlements. During the third quarter of Fiscal 2011, Dell received \$72 million from 3PAR inc ("3PAR") for 3PAR's termination of its merger agreement with Dell. For the first quarter of Fiscal 2011, Dell recorded a \$100 million settlement amount for the SEC investigation into certain of Dell's accounting and financial matters, which was initiated in 2005, and also incurred \$40 million for a securities litigation class action lawsuit that was filed against Dell during Fiscal 2007. Dell is excluding these fees and settlements from the operating results of Fiscal 2011 for the purpose of calculating the non-GAAP financial measures because it believes these settlements are outside Dell's ordinary course of business and do not contribute to a meaningful evaluation of Dell's current operating performance.
- The aggregate adjustment for income taxes is the estimated combined income tax effect for the adjustments mentioned above. The tax effects are determined based on the tax jurisdictions where the above items were incurred.

There are limitations to the use of non-GAAP financial measures. Dell's non-GAAP financial measures may not be comparable to similarly titled measures of other companies. Other companies, including companies in Dell's industry, may calculate the non-GAAP financial measures differently than Dell does, limiting the usefulness of those measures for comparative purposes. In addition, items such as amortization of purchased intangible assets represent the loss in value of intangible assets over time. The expense associated with this loss in value is not included in the non-GAAP financial measures and such measures, therefore, do not reflect the full economic effect of such loss. Further, items such as severance and facility action costs and acquisition expenses that are excluded from the non-GAAP financial measures can have a material impact on earnings. Dell's management compensates for the foregoing limitations by relying on Dell's GAAP results and using non-GAAP financial measures supplementally or for projections when comparable GAAP measures are not available. The non-GAAP financial measures are not meant to be considered as indicators of performance in isolation from or as substitutes for gross margin, operating expenses, operating income, net income, and earnings per share prepared in accordance with GAAP and should be read only in conjunction with financial information presented on a GAAP basis. Dell provides detailed reconciliations of each historical non-GAAP financial measure to its most directly comparable GAAP measure within the financial information included with this press release and in other written materials that include such non-GAAP historical financial measures, and Dell encourages investors to review the reconciliations in conjunction with the presentation of any historical non-GAAP financial measures.