DELL INCORPORATED

Moderator: Lynn A. Tyson
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Operator: Good afternoon and welcome to the Dell, Inc. Fourth Quarter Fiscal Year 2009 Earnings Conference Call. I'd like to inform all participants this call is being recorded at the request of Dell. This broadcast is the copyrighted property of Dell, Inc. Any rebroadcast of this information, in whole or part, without the prior written permission of Dell, inc. is prohibited. As a reminder, Dell is also simulcasting this presentation with slides at www.dell.com/investor. Later, we will conduct a question and answer session. If you have a question, simply press star then one on your telephone keypad at any time during the presentation. I'd like to turn the call over to Ms. Lynn A. Tyson, Vice President of Investor Relations. Ms. Tyson, you may begin.

Lynn A. Tyson: Thank you. With me today, our Chairman and CEO, Michael Dell, and Senior Vice President and Chief Financial Officer, Brian Gladden. Brian will review our fourth quarter results, our ongoing initiatives to improve our competitive position and our working capital management activities. Michael will follow with his perspectives on strategy, particularly as it relates to the current IT spending environment.

To get additional insights on our results this quarter, please watch the VLOG interview with Brian Gladden, hosted by Rob Williams, Director of Investor Relations. We posted it on our DellShares blog right after we posted earnings this afternoon. Also we continue to refine the earnings web deck that accompanies this call to better address your questions and so I encourage you to read it in detail. All growth comparisons made on this call are year-over-year unless otherwise stated. Our IR activities this year begin with Brian at Morgan Stanley next week and a VLOG covering Global Operations with Jeff Clarke, Vice Chairman Operations and Technology.

Finally, I'd like to remind you that all statements made during this call that relate to future results and events are forward-looking statements that are based on our current expectations. Actual results could differ materially from those projected in the forward-looking statements because of a number of risks and uncertainties, which are discussed in our annual and quarterly SEC filings and in the cautionary statement contained in our press release and on our website.

With that I'll turn it over to Brian.

Brian Gladden: Thanks, Lynn. We started fiscal year 2009 with clear and simple operating priorities focused on five growth initiatives and a plan to capture $3 billion in cost opportunities by the end of fiscal year 2011. While we did call out a year ago that we were seeing signs of spending conservatism, we saw a good start to the year before customers began to defer their IT purchases in the second half of the year.

Against this backdrop, we focused our efforts on elements of our business and strategy we could control, delivering great technology, service and value to our customers, progressing towards an industry-leading cost position and driving disciplined working capital management. Full year and fourth quarter financial results demonstrate the progress we've made on several of these initiatives during the year. We'll be the first to admit that this is a work in progress and there's more to do. In my comments I'm going to focus my attention on the current environment, but you'll find a review of our full year performance on page five and page 25 in the supplemental section of our web deck.

So let's take a look at the P&L for the fourth quarter, which you'll find on page six of the web deck. Revenue was down 16 percent to $13.4 billion, as we saw the continued weak demand environment. As we announced earlier, we absorbed $277 million, or 11 cents after tax, of expenses, which were comprised of $134 million in organizational effectiveness costs and $143 million related to incremental stock-based compensation. The majority of these organizational effectiveness expenses are classified as cost of goods sold, while the stock-based compensation is primarily in SG&A.

Gross margins have been relatively stable for the past several quarters and if you exclude the impact of the organizational effectiveness expenses and stock comp, gross margin rates were again above 18 percent for the quarter. To help you better understand our OpEx progress, we absorbed $92 million in costs in the fourth quarter of last year and $152 million in the fourth quarter of this year related to the combination of organizational effectiveness, incremental stock comp costs and the write-off of in-process R&D. These items mask the progress we've made in our underlying OpEx run rate. Adjusting for these items, OpEx was down $423 million in the quarter or 20 percent year over year. This progress in OpEx puts us in a much stronger competitive position as we enter fiscal year 2010.

Our tax rate for the full year was 25.4 percent, which resulted in a 22.6 percent rate for fourth quarter. This is driven by lower profits in the U.S. and a mix shift to notebooks. Taking all this into account, our reported GAAP EPS for the quarter was 18 cents. We had a good quarter of execution and managing our working capital in a challenging environment. We generated $729 million in cash flow from operations, with improvement in both inventory days and receivables, offset by a two-day decline in payables. Our cash conversion cycle remains stable at a negative 25 days in the quarter. For the full year, cash flow from operations was $1.9 billion. We continue to believe that over time we can generate cash flow from operations in excess of net income.

Turning to liquidity and capital allocation, on page nine and 10 of the deck, given the ongoing uncertainty in the credit markets and despite an increasingly attractive valuation, we chose to forgo share repurchases and conserve cash in the quarter. We ended the quarter and the year with $9.5 billion in cash and investments. We continue to have access to traditional short-term and long-term funding vehicles, including a commercial paper facility of $1.5 billion, of which $100 million was outstanding at the end of the quarter. As a reminder, we filed a debt shelf registration early in the fourth quarter, which we can use to augment our liquidity position.

As Lynn mentioned in recent blog post, we've been getting a few questions on Dell Financial Services and again, included additional detail on page 11 of the web deck. We saw a slight decline in our penetration rates year over year, consistent with the credit-tightening actions we've taken over the past 18 months. We're closely monitoring the credit markets and continue to adjust our loss reserves to reflect the realities of the current economic situation. We're also looking for opportunities to lower our cost of funding for DFS, including bringing some of the funding onto our balance sheet. Overall we continue to be very comfortable with the profit contribution and returns we see in this business, now and into the future.

I'd like to talk a bit about cost and the status of our cost initiatives, which have been a big focus for us and are clearly one of the areas where we can actually control the results in this environment. We see real opportunities to differentiate ourselves here and continue to make this a top operating priority. We can and we will continue to rapidly adjust our cost structure in an environment of slowing demand. In COGS we've made progress on design to value and in making our manufacturing and supply chain costs more variable. Nearly 40 percent of business client and over 40 percent of our consumer platforms by volume are now redesigned and cost-optimized.

In aggregate, we've reduced our average cost per box by five percent. I should point out that we're still early in this process and expect more benefits here. As we expand our global manufacturing and logistics footprint, approximately a quarter of our volume is now going through contract manufacturers. Progress here has provided a good buffer to declining volumes late in the year, as we've been able to use these savings to remain competitive and deliver stable gross margins.

In OpEx, fiscal year 2009 results show clear progress, with adjusted OpEx down six percent for the full year and 20 percent in the fourth quarter, 400 basis points ahead of our revenue decline. Our progress here has accelerated over the course of the year and it involves reductions in all buckets of cost. We've engaged the whole company in our efforts on cost and we're encouraged by our progress. As our teams have worked through these key COGS and OpEx initiatives, we've identified an additional $1 billion in cost opportunities that we're confident we can realize by the end of fiscal year 2011.

Related to these further cost actions, we're today announcing that we expect to absorb organizational effectiveness expenses in the first quarter at a similar level to what we recognized in the fourth quarter, as we further align our business to improve competitiveness. Our goal continues to be to drive a balance of liquidity, profitability and growth and optimize cash returns, regardless of the macroeconomic cycle and our cost initiatives are a big part of that.

Now let me briefly turn to the performance of our business segments, which you'll find more details on in the supplemental section of the web deck. We had strong unit growth in our Global Consumer business, with unit volume up 18 percent and revenues down by seven percent. Total year operating income for the Global Consumer business improved significantly to $143 million and 1.2 percent of revenue. We continue to build out our retail footprint in the consumer space and now have over 24,000 outlets on a global basis. On the Commercial side, we were again disciplined in our execution. There were a few areas where we were able to drive growth, but many regions and vertical segments were challenged by the economic environment and we worked to optimize margins.

Our Americas Commercial revenue declined 17 percent. Operating profit actually increased form a year ago period by 160 basis points, as we continue to exercise pricing discipline in this area and benefited from our strong cost management. EMEA Commercial revenue was down 17 percent as well, while operating margin as a percentage of revenue improved 90 basis points sequentially, as enterprise revenue accounted for a larger portion of our total mix. The EMEA Commercial business also took additional operating expense out of the business.

APJ Commercial revenue was down 24 percent year over year, as we saw a significant slowdown in the pan-Asian economy. Specifically, we saw a pretty dramatic slowdown in both China and India. We saw a decline in China revenue, while India, though slower, still experienced mid single-digit revenue growth. Our total revenue from BRIC countries was down 23 percent from a year ago period. BRIC countries in total made up over seven percent of revenue, while revenue outside the U.S. was 48 percent of our total mix.

Moving briefly to a few key product highlights, in the client space, mobility units were flat and revenue was down 17 percent, due to the soft demand environment globally. Desktop units were down 21 percent, with revenue declining 27 percent. On enterprise products and services, server revenue was down 16 percent on an 18 percent decline in units. We experienced strong double-digit unit and revenue growth in blades, four-socket rack servers and our cloud computing initiatives. Our x86 server share grew slightly in the quarter and we retained our number two position in the world.

Storage had a relatively good quarter, with revenue up seven percent, driven by strong growth in our PowerVault disk and EqualLogic iSCSI network storage solutions, which were again up over 100 percent. Enhanced services revenue declined by three percent to $1.4 billion, however our support services, which deliver customizable support solutions for end users and IT professionals in Dell and non-Dell environments did extremely well. Our deferred revenue balance grew seven percent to $5.6 billion in the quarter. Software and peripherals revenue declined six percent, with strong double-digit growth in software sales.

Now let me spend a moment on our newly announced segment structure. At the end of December, we announced our intent during fiscal year 2010 to migrate our regional commercial segments to four global business units, to better align our capabilities with our changing customer base. After this realignment is complete, our operating structure will consist of the following four segments: Global Large Enterprise, Global Public, Global Small and Medium Business and Global Consumer. We plan on showing results in this new segment structure in the first half of fiscal year 2010.

Before I turn it over to Michael, let me leave you with some key points on the quarter and our views on demand. As we've said in the past, one of the real benefits of our direct customer relationships is that we're able to see the demands signal earlier than any other company. We saw a shift in – to conservatism in IT spending early in 2008 and updated you through the year on the demand trends we were seeing.

We experienced a significant deterioration in demand in our third quarter and while the fourth quarter was more linear than the third, the trend we saw late in Q4 and early in our first quarter is still negative, as customers continue to defer purchases. We cannot predict how deep or long the slowdown will be, though we're planning on it to be protracted. We'll continue to focus on what we can control, which is satisfying our customers and rapidly adjusting our cost structure to the realities of industry demand. We'll selectively take advantage of growth opportunities and make investments in areas that allow us to recognize lasting competitive advantages. We believe that our new global organization is better aligned with our customers and this will enhance our ability to act on their needs with even greater speed and efficiency.

We've identified an additional $1 billion in cost savings to be recognized by the end of fiscal year 2011. Our teams are aggressively executing on programs to capture these benefits as soon as possible. These new and incremental cost programs, combined with our previously announced $3 billion opportunity in COGS and OpEx, will put us in a stronger competitive position as we move through this year. As I said, in our first quarter we now expect to absorb organizational effectiveness expenses at a similar level to the fourth quarter, as we further align our business and improve competitiveness.

In summary, we'll continue to execute on initiatives that diversify our revenue base and product portfolio and we'll aggressively drive broad cost-reduction initiatives, which over time will yield improved liquidity, profitability and growth. With that, I'll turn it over to Michael.

Michael Dell: Thank you, Brian. In the past 16 months we've improved our competitiveness with our $3 and now $4 billion cost initiative, delivering strong growth in emerging countries and global consumer. We've broadened our product portfolio, launching new enterprise blades and Latitude E-Series notebooks for commercial customers and Inspiron netbooks and Studio Hybrid desktops and notebooks for consumers. We've expanded our services business with new offerings in enterprise solutions and remote infrastructure management.

And we've introduced Dell to more people in more places than ever before, expanding our consumer business to over 24,000 retail outlets.

Through the first half of last year, we delivered 10 percent revenue growth on 20 percent unit growth. As customer – as customers deferred purchases, we quickly adapted by accelerating operating cost initiatives and focusing on cash flow and profitability over growth. For the full year, we achieved strong margins, with 18 percent gross and 5.2 percent operating margin, or six percent operating margin, net of the OE and equity compensation issues that Brian mentioned earlier.

We grew faster than the industry, selectively gaining share, with 34 percent unit growth in BRIC and 35 percent unit growth in global consumer. And we announced the next phase of our transformation to global businesses that are organized around customers, organizations that allow us to best serve our customers' needs and take advantage of the opportunities we see.

Our strategy is to deliver disrupted technology innovation and shift our business to higher margin products and services. Providing disruptively great value to customers and partners through our direct relationship is really about making IT simpler and more productive. And now more than ever, organizations are thinking about the total cost of operating and owning IT.

We want to deliver the power of the cloud and the Internet, leveraging Dell.com and the persistent and unique connections that we have with our customers. We want to drive price performance and feature leadership across all of our businesses by creating efficient solutions that just work. And we want to get a larger share of the profit streams embedded in our growing install base of hundreds of millions of products that we deliver, opportunities like search, services, 3G originations and other telecom opportunities. As we deliver more solutions for our customers these opportunities present themselves.

The second part of the strategy is to shift our solutions portfolio to higher margin solutions and recurring revenue streams, like those found in servers, storage, services and software that deliver on the first tenet of our strategy.

We're driving the attachment of services onto our existing product platforms and expanding our capabilities further. Customers are very focused on outcomes, so pushing deeper into enterprise solutions is another key focus for us. We're going to add more capability and as we do this, we find we're involved really at the right level with these customers and enjoy more success.

Finally, software represents another opportunity for us to shift the portfolio. You've also seen us do more with customization and personalization and we'll take this further. Dell is the company that really drove the cost of hardware down over the last 25 years. But for every dollar that's spent on hardware, there's $3 to $4 spent on everything else and that's exactly where we're heading for our future opportunities.

So let's stop there. We'll open it up for questions.

Lynn A. Tyson: Operator?

Operator: Ladies and gentlemen, we will now begin the question and answer portion of today's call. If you have a question, please press star one on your telephone keypad. You will be announced prior to asking your question. If you would like to withdraw your question, press the pound key. One moment, please, for the first question.

Our first question comes from Richard Gardner with Citigroup.

Richard Gardner: Hi, thanks very much. Brian, first you made a comment on linearity in the quarter and you said this quarter was more linear than last, which is a little bit different than what we're hearing from companies like Cisco and HP, so I was hoping that maybe you could elaborate a little more on what you saw throughout the quarter and give a sense of how dramatic any falloff that you saw in January and early February might have been.

And then the second question is how should we think about how quickly you can take out costs? You've done a great job with cost and discretionary spending, but what is the goal here? Is it to try to maintain operating margins in the five-and-a-half percent range, even if we see a 15 to 20 percent decline in revenue for the full year? How should we think about that?

Michael Dell: Richard, this is Michael. I'm going to take the first part of your question and Brian'll take the second.

Richard Gardner: OK.

Michael Dell: I think what this really speaks to is the purity of the demand signal that we have and what I would tell you is that we did not see a dramatically volatile demand signal. We saw changes in the demand week to week, but when I look at the results and some of the statements from other participants in the industry at various levels in the supply chain, they're quite a bit different from what we see in the end-user, end-customer demand on a day to day basis. So I think, here again, having this contact with customers on a regular basis gives us a great opportunity to tune the business appropriately and we feel good about that. So, Brian?

Brian Gladden: Yes, Richard. On the cost question, the way we're running the business right now, given this environment, is really we have multiple scenarios that we're looking at around where the demand might be and what revenue looks like. And we've got a series of cost actions that we're obviously working towards. Obviously we have confidence that we can do more than we've already talked about and that is we'll adjust the pace and our efforts around cost, given what we see from the demand environment. So I think that there's more there for us and I think we've shown we've got some good momentum there.

Richard Gardner: OK. Well thank you.

Operator: Our next question comes from Katy Huberty with Morgan Stanley.

Katy Huberty: Thanks, good evening. Just two questions to follow up on the cost reduction goals. First, on the four billion, which is one billion incremental versus the prior plan, does that address the risk that the rate of demand decelerations will continue in this fiscal year or does it only consider the revenue trends you saw through January? And then secondly, I believe you're now at about 1.5 billion annual run rate in terms of savings. Where might you be by the end of fiscal '10?

Brian Gladden: Well, Katy, I think in terms of run rate, I think if you look at OpEx it's very simple to find where we are. If you look year over year for the fourth quarter and adjust for some of the items we talked about, it's about a billion-five of run rate there, in OpEx alone. So the opportunity for us to continue to drive both OpEx, but clearly COGS, we still have a lot more opportunity. that's the – one of the charts in the Web deck lays out the progress we've made on those initiatives and I would just tell you that we're early in that process and as we continue to execute on the COGS efforts there, you'll see combined cost efforts that improve the OpInc for the business.

So in terms of whether it's enough to keep up with the demand it's just – it's hard to say what the demand is. We have multiple cases there that we're managing to and as we see that play out we'll adjust as quickly as we can.

Katy Huberty: Thanks.

Operator: Our next question comes from Tony Sacconaghi with Sanford Bernstein.

Tony Sacconaghi: Thank you. I just wanted to follow up on that, Brian. You had mentioned that you had various planning scenarios for the current fiscal year. I guess the question is what is embedded in terms of the incremental billion dollars in cost reduction over the next two years? What is the base case planning assumption that you are – that you are setting that incremental $1 billion cost? Is it a level of year over year revenue decline, consistent with what we saw this quarter or is it something better or worse than that?

Brian Gladden: I think, Tony, that the simple way to answer that is we're planning on a continuation of the environment we've seen today and that's sort of what we've got ourselves comfortable with. But I would also tell you we've got other scenarios that are worse than that and some that are better than that that have different operating agendas tied to them.

Tony Sacconaghi: And if we think about that incremental $1 billion in cost opportunity, can you help us understand what the nature of those opportunities are? On page 17 in your slide deck you say reduce OpEx and headcount, quote, unquote, as a fiscal year 2010 opportunity. You also commented that you're going to absorb more charges in Q1, so should we be thinking that a significant portion of the incremental one billion in opportunity is headcount? And I think my analysis would say if you assume the whole thing, it would be 12 to 15 percent of your workforce. Can you comment on that please?

Brian Gladden: Yes. Tony, not going to comment on specific headcount impact, but I can tell you that it's a broad set of initiatives that cover really every bucket of cost and simplifying and streamlining the organization is part of that, but clearly there's a lot of other cost to go after. And as I said, I think COGS and product costs are clearly one of the bigger opportunities for us.

Tony Sacconaghi: And then finally, on the product cost side, it sounds like you have made pretty good progress. I think you said about 40 percent of your units have average COGS down five percent. If you just did that math and you said all else being equal that would lead to about a two point boost in gross margin. It certainly didn't seem like you saw that this quarter. Obviously you had volume effects to contend with, but when do we – when do we start to see that impact in terms of pushing up against your – or helping gross margins go up? If you're part of the way through and should be gaining more and more each quarter, when will we and why won't we see an improvement in gross margins going forward?

Brian Gladden: It fully depends on demand for a couple reasons. Clearly there's a need to get units through the system at the new cost. So the more we ship as we grow the costs go down and we get to enjoy the benefits of those redesigns and relaunched products.

I think more broadly, when you think about demand and the mix environment that we see today this cost reduction activity we've been through on the COG line has given us some flexibility and a bit of a buffer to effectively manage our top line and how we play in certain markets. So I think, depending upon how the market demand plays out, Tony, you could start to see some of that. And if not we'll use it to continue to be competitive and play in the marketplace.

Tony Sacconaghi: Thank you.

Operator: Our next question comes from the line of Bill Shope with Credit Suisse. Please go ahead.

Bill Shope: Looking at your gross margins; obviously I think they demonstrated your increasing focus on profit preservation versus pricing for growth. There's been some movements back and forth here, looking at the past few quarters. Can you give us a sense of how this message of profit preservation is being pushed throughout the organization? Were there material changes in the sales compensation structure or that of middle management? And I guess looking forward, would you characterize this as a relatively permanent way Dell will focus on the business?

Michael Dell: I think we've been pretty consistent here for several quarters and we're not changing our approach. You're right that there is a focus in terms of compensation plans on gross margins and on mix, particularly to drive a mix shift further into servers, storage and services, which we saw kind of throughout the year. And even if you look in the – in the fourth quarter, with a heavier consumer component, typically we had a healthy mix of those higher margin products.

Bill Shope: I guess just to follow up on that, Michael, I mean before this quarter, if I looked at the July quarter versus the October quarter, clearly in the July quarter you had said you had priced a little more aggressively than your costs allowed, or your cost savings allowed and then you showed a nice improvement in the October quarter. So what I'm trying to figure out here is what is the forward plan, particularly in this economic environment? Is this we saw this quarter, the focus on gross margin preservation in particular, is that really the marching orders you've pushed to the organization going forward?

Michael Dell: Well, first of all, I think the way we're running the business is around operating income and cash flow. And in this kind of demand environment, really the focus should be around solutions and things that differentiate the product and when the traction that we're having with customers is in, I'm talking about virtualization and managed services and those kinds of things, not kind of trying to drive a price message.

Bill Shope: OK, great. Thank you.

Operator: Our next question comes from Keith Bachman with Bank of Montreal.

Keith Bachman: Two questions if I could. Brian, the first one on cash flow; could you talk about how you see the cash cycle days unfolding over the next couple quarters. Does it stay at these levels, at the negative 25 type of days? And related to that, the CapEx was down to under $40 million I think. Is that kind of the right CapEx run rate? If you could just talk about cash flow and then I have a follow up, please. Thanks.

Brian Gladden: In terms of CapEx, I think we've done a nice job taking CapEx out of the business and year over year I think you see a pretty dramatic reduction. I think you'll see – if you take the total year spend for this year, I think that's a reasonable assumption for next year, maybe slightly below that. And that's how I think about it.

In terms of the cash conversion cycle we've been pretty consistent that we think we can get back to even a minus 30 and that's the sort of target that we're aligned around. I think the current environment, with the – with the revenue declines and how that plays out on our working capital makes it challenging.

Keith Bachman: Right.

Brian Gladden: But I think we'll continue to work to try and get back towards 30 and in a more normal revenue environment I think we'd be back there. So that's how I'd play that assumption.

Keith Bachman: OK, thanks. And then my follow-up question, Brian, for you as well, you mentioned a few different times that you're still working on the BOM to get the cost of the units down. Given what you're seeing so far in February, is it – is it reasonable to assume that gross margin stays roughly at these levels, even against what you're seeing roughly in the April quarter?

Brian Gladden: That’s what we’re working towards, but it’s OpInc for us and if we have all of these cost initiatives are aligned around driving towards an OpInc answer for the business and that’s how we’re driving the teams.

Keith Bachman: OK. Thank you, guys.

Operator: Our next question comes from Ben Reitzes with Barclays Capital.

Ben Reitzes: Hey, thanks a lot. There was one question I didn’t hear, so hopefully this wasn’t asked, but did you accrue a bonus in the quarter and, if so how much was it and – or if you didn’t, how much did it help costs? And then what is your plan for bonus accrual for this year and how does that impact the costs on a year over year basis? And then I have a follow-up.

Michael Dell: Hey, Ben. We did accrue a bonus in the – in the period and we plan to have one in fiscal year ’10. That’s it.

Ben Reitzes: So it wasn’t – it wasn’t a material factor in the OpEx reduction though?

Michael Dell: It was not.

Ben Reitzes: OK. And then, with regard to cash flow, HP also had cash usage from payables and cash generation from AR and that kind of was the result of the linear, their quarter got weaker. You had that as well, but you said the quarter was more linear. Can you just explain your cash flow dynamics - what's going on with the payables versus receivables, just so we can get more confidence that you generate cash next quarter instead of going back to a usage?

Brian Gladden: Yes, and it's – the receivables is purely a function of the volume and the revenue and the business and the timing of that, the linearity of that revenue. As I said we did see deterioration of demand and revenue during the quarter but not to the extent that we saw in the third quarter so it wasn’t as – it didn't deteriorate as quickly.

In payables as our COGS levels go down, as OpEx spending goes down, as you also know we took inventory down, all of those things reduced the levels of payables in the business and that's how you see a contraction in the payables performance in the quarter.

So, yes, I think when you look forward a lot of it's really got to be modeled around what you see in terms of revenue and demand and if you can model that out I think it's mapped around the rest of the cash performance.

Ben Reitzes: All right and then just housekeeping, what was currency in the quarter and what tax rate - what should we use to model you in FY10? Thanks.

Brian Gladden: Yes. Currency was negligible and the tax rate something in the 25%-26% range for next year would be a good assumption.

Ben Reitzes: Thanks a lot.

Brian Gladden: Yes, thanks Ben.

Operator: Our next question comes from Mark Moskowitz with JP Morgan.

Mark Moskowitz: Yes, thank you. Good afternoon. Two questions, Brian, can you talk a little more about the gross margin profile in terms of COGS? In one of your slides you talk about 25 percent of the volume now going through contract manufacturing, how should we think about that for 2010? Is there any sort of hesitancy among contract manufacturers that take on excess capacity in this type of environment?

Brian Gladden: We haven't seen that. We continue to move more in that direction. I think that will be one of the levers that we look at COGS reductions during the course of the year in this environment.

Michael Dell: That's absolutely right. We continue to go further in that direction and we wouldn't be surprised to see that number go up.

Mark Moskowitz: OK and then the second question is on the operating margins with respect to consumer having some good uptake there in terms of revenues relative to the other parts of the business.

Can you talk though about the commensurate or the lack of commensurate, a boost in your operating margins for that business? Is this a function of just the cost structure or the supply chain not yet optimized for higher volumes?

Brian Gladden: For Consumer, Mark?

Mark Moskowitz: Yes.

Brian Gladden: I think the dynamics are consistent with what we talked about in the third quarter for consumer. There are multiple sources of revenue and margin in this business. They can be a little more lumpy.

I think the way to think about profitability there is that we generated a 1.2 percent OpEx for the year which is a great improvement over where we were the year before and we continue to track and improve that business and our target is as we've said two percent in the short term and I think we made progress there.

So I – the team's done a great job taking cost out of the consumer business. There's no question and I think the retail footprint expansion and top line growth in the quarter was pretty good.

Mark Moskowitz: Thank you.

Operator: Our next question is from Chris Whitmore with Deutsche Bank.

Chris Whitmore: Thanks very much. I wanted to follow up on the last question with respect to your existing internal manufacturing. Should we anticipate more plant shutdowns given that you're increasing your usage of contract manufacturers while unit volumes decline significantly? I would expect there to be meaningful excess capacity within your network?

Brian Gladden: I think we've said that we're in the midst of a review of our manufacturing capacity and we've talked about using additional contract manufacturers as one alternative for us. But we haven't made any decisions that are ready to go yet. So we're continuing to look at it.

Michael Dell: And the end game there could take on several different forms so when we're ready to talk about it we'll announce it.

Chris Whitmore: Do any of the manufacturing partners have the appetite to take on more capacity, more manufacturing capacity at this time?

Michael Dell: We haven't seen any lack of interest in our discussions with contract manufacturers.

Chris Whitmore: OK. Last question for me is around Windows 7. Are you seeing any behavior changes from your enterprise customers as it relates to Windows 7? Is that creating incremental kind of deferrals of purchasing in your estimations?

Michael Dell: Well, I don’t know how much of this you've heard but we're starting to get pretty excited about Windows 7 and believe it's going to be an important catalyst for growth. Now having said that it will also push purchases until Windows 7 comes out, so discussions that we're having with larger customers are all around making sure that they're kind of ready for Windows 7 and waiting for Windows 7 and investment protection kinds of things in any devices they might install this year.

Chris Whitmore: Thanks a lot.

Operator: Our next question is from Shannon Cross with Cross Research.

Shannon Cross: Yes, thank you, a question with regard to your balance sheet. Brian, if you could talk a little bit about how you expect it to trend? You've talked about working capital but I am also curious on inventories and I am also curious as to how you're sort of looking at that balance or your ability to raise debt, CP versus the asset-backed securities market. You obviously have your debt shelf. Just as we assume most of your cash is offshore, how should we sort of think about how all these pieces will play together in fiscal 2010?

Brian Gladden: Yes. I would say, Shannon, clearly a priority to maintain and manage our liquidity for us right now. I think as you said we do have the debt shelf out there. We do have access to commercial paper and those seem to be viable alternatives and we'll be opportunistic there where it makes sense.

But I also think we do have opportunities to improve out working capital performance including inventory levels and we've made some progress in the quarter, taking out almost $200 million of inventory. I think there's more there. We'll continue to work on working capital as one way to just shore up the balance sheet in this cycle.

Shannon Cross: Should we look at finance receivables to continue to be a use of increasing use of cash during the year?

Brian Gladden: I think so, as we look at the DFS business and how we feel about the growth there and what that enables for us in the rest of our business it's just the cost a capital decision in terms of how we fund those activities in DFS and to the extent it's a better answer for us to put that on book versus use other vehicles then that's what we'll do and I think that's what you saw in the quarter.

Shannon Cross: OK. Great and then just one quick question for Michael – alright, nobody has asked the netbooks question yet so I am just curious as to sort of how you're seeing the netbooks market trend? Concerns on ASP just any color you want to give us there? Thanks.

Michael Dell: We see the netbook for us with a relatively low share in consumer as part of the consumer opportunity but I continue to believe it's mostly incremental and even more so given our share in consumer.

We're continuing to expand the offering. We've been particularly focused on 3G and agreements with carriers embedding 3G using our own sales engines as well to sell 3G netbooks and obviously, you know, broadening the range of products starting with 9, 12 and now 10 inch.

Shannon Cross: Great, thank you.

Operator: Our next question is from David Wong with Wachovia.

David Wong: Thank you very much. Could you give us the approximate cash conversion cycle of product structure for contract manufacturing?

Brian Gladden: It’s about the same as what we have for the rest of the business. There's not a whole lot of difference there given how we've structured those arrangements.

David Wong: Great. And the other thing is you mentioned investment protection needed, some customers thinking about investment protection in anticipation of Windows 7. Are there specific hardware characteristics you need to build into your product to make things Windows 7 compatible?

Michael Dell: Well they're thinking about all the features in Windows 7 and anticipating which of those they might use and ensuring that products are supported around those.

We have aggressive plans in this area and I think as you see our products roll out over the course of the year it's fair to say they're all Windows 7 ready and we're kind of all over this.

Being kind of the leading provider to larger organizations we know a lot about selling into an investor protection mindset.

David Wong: Right. Thanks.

Operator: Our next question is from Maynard Um with UBS.

Maynard Um: If I cast a gross margin question a little differently it obviously looks like the mix was the biggest help to gross margins in the quarter. And if I'm doing the math correctly it looks like your desktop, mobility, and S&P gross margins are down to around 11 percent from around 14 percent at the beginning of fiscal '08.

But some of the actions that you're taking on improving COGS do you think we're bottoming at these levels and are more particular focused on these three segments, so not taking into account mix?

Brian Gladden: Yes, Maynard, I don't know that, it's really hard to tell what future gross margin dynamics are going to be. I think that's really tied to the demand environment and the competitive environment.

Again, as I said, we're doing everything we can to get cost out of the box and get our overall costs out so we can actually be competitive no matter what happens. I think I wouldn't get into commenting on this specific product lines and what we're doing there. But we're focused on cost programs in all of them.

Maynard Um: OK, and related to the netbook channel with wireless operators, what percentage of your mobility units do you think you can move through that channel over time and do you actually get any kickbacks from operators if a customer signs up for a wireless plan?

Michael Dell: It's a pretty small percentage today. Certainly we're very focused on 3G originations and how the inclusion of 3G radios in our products increasingly and positively affects the economics.

Maynard Um: And then just last one for me, can you just talk about levels of inventory in indirect channel? Thank you.

Brian Gladden: We don't have inventory in the direct channel. That's really all we can comment on.

Maynard Um: OK. Thank you.

Michael Dell: Well just to be clear, we do have some retail inventory. Our channel partners tend to have very, very little inventory. Most of them pass through inventory directly from our factories and contract manufacturer factories directly to the end point of use.

So any – the inventory we would have in the channel we've been monitoring, measuring that very, very carefully to avoid the inherent risks that present themselves there and I think we're doing a fine job there.

Operator: Our next question comes from Jayson Noland with Robert Baird.

Jayson Noland: Thank you. Michael, you were talking about shifting the portfolio. I guess could you comment on the pace at which we could expect a shift and then organic development versus inorganic?

Michael Dell: Well, the shift is a big focus particularly as we organize the new commercial businesses in terms of the large enterprise, public and SMB. We've created a number of new offerings. New capabilities will be created organically, some with partnerships and acquisitions as well. We continue to make small acquisitions and we'll certainly look for additional ones.

Jayson Noland: Thank you.

Operator: Our next question is from Scott Craig with Bank of America.

Scott Craig: Yes, thanks. Good afternoon. On the financing business it looks like the loss reserves are up to around 10 percent now. Brian, did we see that stabilize at all during the quarter or was it still kind of trending worse as we exited the quarter and we enter into the month of February.

And then secondly, on the retail business I think you mentioned around 24,000 points of purchase. Now is there a goal for that as you work into this fiscal year where you want to be at some point? Thanks.

Brian Gladden: Yes, let me comment on the financing receivables, or the losses in the financial portfolio, as we plan out the year if we look forward we would expect that to probably continue to be tough.

I won't comment on the trend during the quarter but we look at it constantly. We've taken significant actions to tighten credit down. We've done some pricing actions and other fee actions to mitigate some of these higher losses. But we feel very comfortable with where we are in terms of the reserve for losses. We took it up in the quarter and we'll continue to watch that as we go forward.

In terms of retail I don't think we don't have a goal as to where we end up there in terms of number of retail outlets. We're methodically adding what we believe are the best and strongest retailers in the world. There are a number of retailers who are pretty upset with us right now because we haven't offered our products through them.

But I think it's fair to say that the number of potential outlets is a couple of multiples greater than the current number.

Scott Craig: Thanks.

Operator: Our next question is from Bill Fearnley with FTN Equity Capital.

Bill Fearnley: Yes, thanks. Brian, if I could go to the component cost. Can you give the gives and takes during the quarter? You mentioned that you're seeing a more normal environment here. What did you see in the previous quarter and what do you see near term on components and the effect on gross margins and I have a quick follow-up?

Brian Gladden: Yes, I would say, well our point was, I think in the fourth quarter it was more a historical normal component environment. I think it was a little better in the third quarter where we saw more component deflation in the third quarter.

And as we look out through the year, I think there's going to be puts and takes in various categories of inventory, or of components, but I would say we are characterizing it as a normal environment on average.

Bill Fearnley: So no advanced buys required here?

Brian Gladden: No. We're managing our capital pretty tightly.

Bill Fearnley: OK, and then one follow up on the facilities, you had mentioned before you were thinking about trying to sell some of those facilities, any update there?

Brian Gladden: No.

Bill Fearnley: That's all I had. Thanks, guys.

Female: Operator, we'll take one more question, please.

Operator: We'll now take our final question from Andy Hargreaves with Pacific Crest.

Andy Hargreaves: Thanks. I just have a couple of follow-ups actually to earlier questions. On the netbooks your answer suggested that there isn't really, or you're not expecting adoption of netbooks in corporate environments, is that the case? And maybe why, since they seem to be good devices for taking advantage of computing and softwares and services type stuff.

Michael Dell: Well, it's certainly possible but so far what we're seeing is that the corporate users tend to prefer machines with larger screens. Even if you look today, we offer corporate notebooks at the 12-inch, 13-inch, 14-inch, 15-inch, 17-inch screen.

The most popular one is the 15-inch, and it's possible that there may be a move to smaller screens but the visualization of data is still very important to users and so we're just not seeing a lot of demand for that.

Andy Hargreaves: OK. And then a follow-up on that consumer question, as you expand to more outlets, is there a diminishing return on that or are you seeing a diminishing return on that, especially on the operating income line?

Michael Dell: I would say it's been more geographic. We kind of started in the U.S. and China, and now we're pretty focused on some of the big opportunities in Europe. And so we're kind of taking it a region at a time and doing it pretty methodically, but certainly our intent is to continue to have a healthy and profitable consumer business.

Andy Hargreaves: OK. Thank you.

Michael Dell: OK, so let me thank you all for joining the call today. We have the financial strength, unique customer relationships and we have a very strong brand. We're aggressively improving our competitiveness and our execution, while delivering solid profitability and maintaining a very strong balance sheet.

We're very focused on providing disruptively great value to customers while shifting our portfolio to higher margin products and services. Thanks again for joining our call. We look forward to talking with you again soon.

Operator: This concludes today's conference call. We appreciate your participation. You may disconnect at this time.

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