Dell Inc.
Fiscal Year 2014 First Quarter
Earnings Conference Call
May 16, 2013

OPERATOR: Good afternoon and welcome to the Dell Inc. First Quarter Fiscal 2014 Earnings Conference Call. I'd like to inform all participants this call is being recorded at the request of Dell.

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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 Rob Williams, head of Investor Relations.

Mr. Williams, you may begin.

ROB WILLIAMS: Thanks, Mackenzie.

With me today are Brian Gladden and Tom Sweet. The web deck was posted to our website in advance of the call. I encourage you to review this and related materials for additional perspective.

Next, I would like to remind you that all statements that are made during this call that relate to future results and events are forward-looking statements that are based on current expectations. Actual results and events 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 in our press release and web deck. We assume no obligation to update our forward-looking statements.

Note that will be referring to non-GAAP financial measures, including non-GAAP gross margin, operating expenses, operating income, net income, and earnings per share. Historical non-GAAP measures are reconciled to the most directly comparable GAAP measures in the web deck posted in the Investor Relations section at Dell.com, and in our press release and 8-K filed today. I encourage you to review these documents.

Please also note that unless otherwise mentioned, all growth percentages refer to year-over-year progress.

Consistent with last quarter, we will not take any questions on the pending transaction to take the company private.

Now I will turn it over to Brian.

BRIAN GLADDEN: Thanks, Rob.

As we head into the new fiscal year, we continue to execute our strategy to be the leading provider of end-to-end scalable solutions. Our strategy is differentiated based on our focus on practical innovation, efficient and affordable solutions, and our superior customer relationship model. For the first quarter of Fiscal Year 2014, we delivered revenue of $14.1 billion, down 2 percent. The Enterprise Solutions, Services and Software Business was up 12 percent to $5.5 billion. Our continued focus on our customers and our ability to meet their needs with differentiated solutions is evident in numerous customer wins that Tom will highlight in the segment section later.

Over the past few years, we have acquired many new capabilities in areas like scalable storage solutions, application migration, and software. We continue to invest in strategic capabilities additionally, and less than two weeks ago we announced and closed the acquisition of Enstratius, which improves our end-to-end solutions capabilities by enabling our customers to more effectively manage and integrate their cloud environments.

I'll refer to non-GAAP financial measures going forward. Gross margin was $2.9 billion at 20.6 percent of revenue, which was down 40 bases points sequentially when adjusting for last quarter's vendor settlements. We continue to face a competitive pricing environment, and have aligned our pricing strategy to invest in growth ahead of planned reductions in our cost structure, and this has affected our profitability. We remain focused on pursuing strategic revenue opportunities that will drive long-term profitability and cash flow.

SG&A increased 4 percent, and as a percentage of revenue increased 20 bases points sequentially to 14.2 percent. R&D

spending increased 33 percent, and as a percent of revenue increased 10 bases points sequentially to 2.2 percent.

Of note, there were almost $90 million in expenses related to the pending go private transaction that were excluded from our non-GAAP results.

Operating income was $590 million or 4.2 percent of revenue. Our non-GAAP tax rate of 28.7 percent is driven by a greater portion of our business in higher tax jurisdictions during the quarter. Earnings per share were 21 cents, declining 51 percent.

Cash used in operations in the quarter was $39 million as the first quarter is typically a seasonal low for cash flow. On a trailing 12-month basis, cash flow from operations was $3.4 billion, down 31 percent. Our cash and investments balance ended at $13.2 billion as we repaid approximately $2 billion in debt during the quarter.

Now let me turn to our operating segment results. As we announced in February, this is the first quarter we're reporting results under the new segment structure. We've aligned our operating segments to our end-to-end solutions portfolio in the Enterprise Solutions Group, Dell Services, Dell Software, and End User Computing Group. Enterprise Solutions Group and the End User Computing Group received revenue from Dell Services to align our reporting structure, and drive accountability in each of the respective operating segments. As a result, the sum of our operating segment revenue will not equal our consolidated non-GAAP results.

In addition, there are unallocated costs that remain at a corporate level that are reconciling items between the total segment and consolidate operating income. The reconciliation of all these items to our consolidated results can be found in the tables that are available in the Dell Investor Relations website.

Now let me turn it over to Tom Sweet, who will take you through our new business segment results.

TOM SWEET: Thanks, Brian.

Let me take you through the financial results for each segment, and I will also share a few important customer wins. Let's start with the Enterprise Solutions Group, or ESG, this business includes servers, networking, storage, and ESG-related peripherals. We continue to see strong growth in ESG of 10 percent on revenue of $3.1 billion, and operating income of $136 million, or 4.4 percent of revenue.

Within ESG, our server, networking and enterprise peripheral business delivered revenue of $2.7 billion, which equates to 14 percent growth. This was driven by strong growth in our hyperscale data center servers. In this space, Dell Servers power four of the top five search engines, and 75 percent of the top social media sites worldwide.

Our networking business increased 24 percent on strong Force10 results. This represents the ninth straight quarter of both year on year and sequential growth in this business.

Dell storage revenue was down 10 percent to $424 million. We are focused on continuing to more effectively position the right solution based on customer need, and optimizing our selling motion to improve revenue momentum. While we have made progress, we have more work to do in this area.

The ESG market is rapidly changing and migrating to converged solutions that blur the lines between traditional product sets. A great example of this was a win with Statoil Norway as our global capabilities in converged solutions displaced legacy vendors in each of the traditional product sets. We are now rolling out a solution that includes Dell branded servers, storage, and networking for their new data centers in 70 locations worldwide.

The services business includes a broad range of IT and business services, including support and deployment services, infrastructure, cloud, security services, applications, and business process services. This business was up 2 percent to $2.1 billion. OPINC for this business increased to $370 million or 17.6 percent of revenue, up from 16.3 percent of revenue in the first quarter of last year. We have been reshaping this portfolio to focus on more profitable solutions that are aligned to our strategic capabilities, and we continue to improve our cost structure.

Within services, support and deployment increased 2 percent with revenue of $1.2 billion. Enhanced and new solutions, such as Pro Support Plus, are adding capabilities to our portfolio that focus on proactively improving the performance and stability of critical systems by leveraging our expertise and deep understanding of the customer's IT environment. The solutions and strong attach rates have resulted in revenue streams partially mitigating the downward pressure caused by the decline in EUC hardware sales.

Infrastructure, cloud, and security services were up 11 percent to $612 million, which includes an increase of 20 percent in our security business. Security continues to be one of the top concerns of our customers, and we continue to develop and deliver new and innovative solutions to accommodate the constantly changing threats. We had a 15 percent decline in our apps and BPO business driven by a divesture and select contract expirations as we continue working to improve the profitability of this business.

Our services capabilities, combined with our vertical expertise continue to position us well to address the needs of our customers. A great example of this was a win with U.K.-based Locala Community Partnership, a social enterprise that delivers community healthcare to over 400,000 people. Our solution focused on improving the management of patient records and simplifying their IT environment by delivering customized services, hardware, and software through a cloud-based solution.

Our software business includes systems management, security software solutions, and information management. This business delivered revenue of $295 million and an operating loss of $85 million for the quarter. Consistent with our prior communication and business plan, we remain confident that the Quest acquisition will be accretive in the first quarter of Fiscal Year '15, as we invest to grow the business.

We are enhancing our software capabilities and increasing our investment in this business with additional sales capacity, and R&D. Software is the glue for many of our end-to-end solutions and it will play an increasingly important role in our competitive differentiation.

Our End User Computing business, or EUC, includes desktops, including thin clients, notebooks, including tablets, third party software and client-related peripherals. This business delivered revenue of $8.9 billion, down 9 percent. Operating income of $224 million was down 65 percent at 2.5 percent of revenue.

As we discussed last quarter, we are investing and acquiring new customer accounts that will benefit our long-term profitability and cash flow. We continue to expect relatively weak demand in this business and continued market competitiveness. These dynamics reinforce the importance of or cost out initiatives for EUC, where we are targeting greater than $1 billion in savings by the end of Fiscal 2015.

In addition, during the quarter we increased our investment to improve sales coverage for key areas of the business. The desktop and thin client business revenue was $3.3 billion, down 2 percent. The trajectory of the desktop business continues to improve, as we maintain a strong position in the traditional desktop space, and are seeing good traction with new desktop form factors, such as our innovative all-in-one designs. Mobility revenue of $3.6 billion was down 16 percent as demand in this space continues to be pressured by customers diverting spending to alternative mobile solutions. We are encouraged by the industry-based enhancements coming to the notebook touch ecosystem and we will bring new and innovative solutions to the market to enhance our position in this space.

We are seeing a good ramp in our tablet-based solutions, led by our Latitude 10 business-focused tablet. Our third party software in EUC peripherals delivered revenue of $2 billion, down 6 percent. A great example of our ability to deliver differentiated solutions to our customers is a recently awarded $60 million client refresh with Marsh and McLennan. We were able to offer a broad array of EUC solutions between our Latitude notebooks, OptiPlex desktops, as well as precision workstations, and XPS systems for higher end users. Our warrantee, product quality, value, and partnership were all key points of differentiation. We will be rolling out these solutions to 55,000 end users globally, displacing a key competitor that was a long-time incumbent.

Before I turn it back to Rob, I want to remind everyone that consistent with last quarter, given our pending merger agreement we will not be providing an outlook. Now, I'll turn it back to Rob to begin Q&A.

ROB WILLIAMS: Thanks, Tom. Please limit your questions to one with no follow-ups.

Mackenzie, can we have the first question?

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.

We'll take our first question from Katy Huberty with Morgan Stanley.

KATY HUBERTY: Thanks. Good afternoon. Given the significant change in profitability, can you just take a step back and talk about whether the margin deterioration this quarter is what you expected when you rolled out a more aggressive pricing strategy and if it was what you expected, can you just go into a little more detail around what it is you're trying to accomplish, given that segment operating income dollars were almost cut in half and it still didn't drive top-line growth? Thanks.

BRIAN GLADDEN: Yes, Katy. I would say -- we've been talking about this for a couple of quarters, about our need to adjust pricing. We did that. You saw some of that last quarter. It was affected by the settlements that we had, as well. And it wasn't quite as apparent in the P&L. But, clearly we've been focused on this for a while. I think there are parts of the business where we are beginning to see some elasticity. Demand has been, I would say, weaker than we expected, as we headed into the year. And I think the reality is in many cases these are accounts that we're gaining that we feel very good about the long-term profitability and the impact on our cash flow over time.

So while we may not see that showing up as a positive in the P&L in the short-term, we think for the long-term it's the right thing to do to get ourselves back in price position to scale the business, and I think as you look at the share dynamics that played out in the first quarter, we actually did improve our position on a share basis, in a market that's pretty tough. So a fairly conscious effort to position the business and something we've been working on for a few quarters now.

OPERATOR: We'll take our next question from Toni Sacconaghi with Sanford Bernstein.

TONI SACCONAGHI: Yes, thank you. I just wanted to follow up on that. Is there a minimum acceptable level of profitability in the End User Computing Group that you are willing to sustain on an ongoing basis in your effort to hold or gain share and related to that, you talked about making investments in advance of your cost cutting, I think a year ago at your analysts day you talked about this cost cutting, given that you've started to be more price aggressive, why have you not been able to undertake any of this cost cutting to date, what's holding you back and wouldn't it make a lot more sense to be doing the cost cutting and more aggressive pricing concurrently?

BRIAN GLADDEN: Yes, Toni. Look, I wouldn't -- without providing the details of the specific initiatives, I wouldn't say we haven't executed on the cost initiatives. I think we have continued to take cost out of the business. We are just choosing consciously to reinvest those dollars in sales resources, and R&D resources in the software business, things that we've talked about over time being important to the future of the company.

So I think those things are going on concurrently and in this time right now we've chosen to reinvest those savings that we're driving as part of that initiative and important investments for the future of the company. That's just what we've decided to do.

In terms of profitability, and I assume you're taking about the EUC business, look, I think we're not managing that business for one quarter at a time. And I think there's a network effect to the impact of what we do there and the scale of that business and the customer relationships that we gain. We are clearly focused on cost in that business, in this environment. We have been focused on gaining and improving the growth of that business and gaining share. We've been able to do that and as we execute on cost and continue to execute the strategy there, we're confident that will be an important part of the portfolio. But, not focused on a 90-day target, relative to the profitability of that business.

OPERATOR: We'll take our next question from Brian Alexander, with Raymond James.

BRIAN ALEXANDER: Thanks, I guess following up on pricing, Brian, maybe just talk about why Dell has embraced such an abrupt change in pricing strategy in the client business the last two quarters. What's really caused such a sharp change in management's thinking, and related to that how much of this is self-inflicted to retain customers during this period of uncertainty and how much of this would you say is market-driven?

BRIAN GLADDEN: I think it's hard to separate those two, Brian, as you think about how market dynamics play out. Clearly there are parts of the business, segments of the business where we are being more aggressive and we recognize that places where we have a strong foothold, or historically have had a strong foothold and can ultimately build on those relationships, and benefit the entire portfolio of solutions, those are places where clearly we'd like to be a bit more aggressive and have over the last couple of quarters.

I wouldn't say this has been an abrupt change.

Clearly recognizing as demand weakened over the course of the last year, we've recognized the need to stop shrinking at a rate faster than the market. And we've made those adjustments over the course of a few different quarters here and have seen the impact of that improve, in terms of growth rates, and at the same time impact short-term profitability for sure.

OPERATOR: We'll take our next question from Maynard Um with Wells Fargo.

MAYNARD UM: Hi, thank you. Can you talk about your customer engagements and how those discussions are going, in light of everything that's happening? How much of your time is being spent explaining kind of what's happening and are customers showing any indication of potentially holding out, or lengthening sales cycles just to wait and see what happens? Thanks.

BRIAN GLADDEN: Yes, Maynard, I think in general the customer base has been very supportive of the company and long-term relationships. The quality of our solutions, the new solutions we're adding to the portfolio have really carried those relationships. And not to say there aren't some areas where we've seen questions and we've had to spend time with customers. We've looked at it as a chance to spend more time with our customers and to make sure they're comfortable with the strategy of the company and where we're taking it. And I would say for those conversations that I've been part of, those have been very good conversations that in many cases have resulted in more opportunities for the company.

OPERATOR: We'll take our next question from Shannon Cross, with Cross Research.

SHANNON CROSS: Thank you very much. Could you talk more about your increased investment in sales and distribution in key regions and segments?

BRIAN GLADDEN: You know, this isn't new, Shannon. We've been adding resources in the sales model really over the last couple of years. And some of that was adding specialist capability around key technologies that we've been adding to the portfolio and doing that organically, but also many of the acquisitions obviously have brought capability from a commercial standpoint with them. That's been one primary focus.

I think the other is some specific regions and sub-segments of the market where we've got strong capability and where we've seen good progress in terms of building out and adding sales people, we have not hesitated to add more. And tracking the progress and productivity of those sales resources, making sure they're delivering and bringing new business to the company, and really taking advantage of places where we have strength has been the focus.

Clearly, the acquisition of Quest and the software business has brought significant sales capacity to the company, and that's been one big area. And as you know, and we've talked about it a lot, the mid-market is a place where we have focused and added resources, as well.

OPERATOR: We'll take our next question from Steve Milunovich with UBS.

STEVE MILUNOVICH: Thank you. Back to the end user pricing question, could you give a sense how much of a strategic change this is, because in the proxy materials one of your consultants suggests it's shifting from a margin to a margin dollar, more commodity-driven strategy. And we're obviously seeing some of that. Michael Dell has indicated apparently that he is going to kind of endorse that approach and shift. So kind of on a scale from zero percent, which is no change to 100 percent, which is a complete change, are you kind of tweaking things now, or do you feel like this is really taking it to the full extent that we're likely to see over time, in terms of going after more of a low-end strategy?

BRIAN GLADDEN: Yes, look, Steve, I wouldn't say our strategy has changed really at all. I think tactically we've recognized the need to be competitive. We've adjusted our pricing appropriately. We are expanding our offerings across the portfolio of really offerings at high priced bands, or higher-value products, mid-value products, lower value products, to play in key markets around the world, as we've done over time and I think you'll continue to see us do that. This is not a new strategy. This is not a new business model for us. I would say it's adjusting tactics, given what the market is doing and really where we need to be in the portfolio.

ROB WILLIAMS: Steve, I would say that I think it's fair to say that when you think about our portfolio of customers, the vast majority of those being commercial customers on a global basis, as we thought through and made decisions to increase our focus on those customers, there's acquisition business that you engage in. And, as Brian alluded to earlier, you think it's absolutely the right thing to do for the long-term, but these are accounts that you have to go out and take a different tact and a pricing strategy with them, and that's often to provide an entry level into that account. And so I think you're seeing a little bit of that in the P&L.

OPERATOR: We'll take our next question from Kulbinder Garcha with Credit Suisse.

KULBINDER GARCHA: Thank you.

Brian, just a couple of kind of follow-ups from everything that's been asked today. One of them is just on the end user computing side, I take the point of managing the business for the next 90 days, and that's kind of quite clear. My guess, in this pursuit of new customers, can you speak about where we are in that process? Have you put the investments in sales, pricing, or otherwise that you need to, or is there significant more amount of that effort to come through? That's kind of one question.

And the second one is just at the broad level. Given the uncertainty that's going on at Dell over the last few months, I understand that sales cycles may not have melted, but what financial impact would you say is happening on either your results or on how you're managing the business from a cost perspective? I'm trying to understand with the margins that you're producing overall now they are lower that we've seen for some time, and some of that is market, but some of that I think has to be down to what has been going on with Dell. So any kind of insight there you can provide would be helpful.

BRIAN GLADDEN: I'll try and answer the second part first, Kulbinder. We haven't changed the way we're running the business. The strategy for the company has endured, and I would say we continue to adapt that strategy given the market conditions and things that we learn as we go. But we have made no changes to the strategy and how we're running the company as a result of this process. I think that's clear.

And I would say it's very difficult to quantify what impact the process that we're going through has had on the results of the company. We did cull out incremental costs that we're incurring the transaction costs that we've excluded from our non-GAAP reporting, but clearly there is a chance to spend more time with customers, and some level of customer just uncertainty that we're working our way through. That said, we feel like we've done a good job with that during this period.

In terms of the EUC business, and where we're positioned and where we are in that. I think we've made a conscious decision here to improve the competitiveness, and specifically the pricing. We've got a lot of ongoing work around the productivity and cost structure of that business that will continue to allow us to be competitive there. And I don't think this is something that we think about as an initiative. I think it's really how we run the business, and quarter to quarter manage the market conditions and the demand environment that we're in.

TOM SWEET: I would also offer that acquiring new customers and continuing to build that acquisition pipeline is an ongoing and continual effort. It's just not a one quarter or two quarter effort. You build the acquisition pipeline. You continue to acquire new customers, and you migrate those customers up through your business model and your other lobs. So I think that process continues.

BRIAN GLADDEN: And to some extent we, over some period of time, as we were driving the business, had in some ways lost that ability to do the acquisition investments that we really needed. So we've had obviously some success there, and we're getting a lot of very positive feedback from customers as we get back into that part of our business.

OPERATOR: We'll take our next question from Chris Whitmore with Deutsche Bank.

CHRIS WHITMORE: Thanks very much.

Brian, I wanted to ask about servers, and whether or not you see a similar type of opportunity to drive some elasticity of demand around pricing servers a bit more aggressively, and related to that, the whole strategy of attaching incremental products to that base? I'm curious to understand what's happening in storage. It doesn't seem like you're getting that attached to the install base that you had hoped for in storage, particularly with the Dell-branded IP. Can you talk a little bit about that as well? Thanks a lot.

BRIAN GLADDEN: Yes, Chris. Clearly, the server business has had a nice run. And this for us is the ninth consecutive quarter of solid growth there. The 12th Generation servers that we launched about a year ago have contributed very nicely to the ramp in that business. They have, as we've talked about before, helped us improve our average selling price in that business, move to higher end workloads within the server space. And that's all been part of very strong progress, and we think we're winning in the marketplace as a result of the technology and how we're positioned with that product.

In addition, when you look at density optimized servers that market is growing very, very quickly. And that has as well contributed to the growth in this business. We see that as an important part of our offering, and continue to make investments there. So the server business is in a good spot, and we feel good about the technology. And it's not really a place where you see us trading at the low-end price for growth there. I think we're growing on the basis of the technology.

The storage business I think a little bit different discussion. We feel like that business is growing about inline with the market. It's shrinking in the market. The market is shrinking, and we're seeing that from the data that we see in the market right now. I would say that's not what we'd like to see, obviously, and that's not acceptable to us. We've got some things from an execution standpoint in that business that we are working on. We're confident in the portfolio. We've added commercial resources over the last really 18 months in this business, and we feel like we're positioned to actually out perform the market. Again, there's some execution things we're working through, and we expect to see that as we move forward.

OPERATOR: We'll take our next question from Keith Bachman with Bank of Montreal.

KEITH BACHMAN: Hi, guys. Number one, Brian, can you talk a little bit about how your M&A strategy might differ if this transaction goes though versus would not, how might the incremental debt make you think about conducting M&A? And just a clarification to add on to that, can you talk about what your employee retention has been during this time of uncertainty, shall we say, over the last few months while this deal is being contemplated?

ROB WILLIAMS: Hi, Keith. It's Rob. I appreciate your questions and your interest, but given the current situation and the pending transaction, we're really not going to comment on that or any of the material information that's related to the transaction.

So you're welcome to take another crack at another question, or you can drop back in the queue and we'll come back to you.

KEITH BACHMAN: How about just the employee retention over the last three months, Rob? Can you address that, if employees are sticking onboard?

BRIAN GLADDEN: Keith, it's Brian. I would say attrition has been about normal for us. So we haven't seen unusual attrition.

KEITH BACHMAN: Okay, that's it for me.

ROB WILLIAMS: Thanks, Keith.

OPERATOR: We'll take our next question from Ananda Baruah with Breen Capital.

ANANDA BARUAH: Hi, good afternoon, guys. Thanks for taking the question.

Brian, I was wondering if we can just get your thoughts on, I guess, the PC market over the next four to six quarters, do you think it gets softer, do you think it gets stronger? And if it were to get, I guess, meaningfully softer from here, would that move you to reconsider the pricing strategy that you sort of employed the last couple of quarters?

BRIAN GLADDEN: I think it's a good question, and it's one we spend a lot of time debating and talking about. There are multiple dynamics playing out. I think you continue to see a Win7 on the commercial side of the business that's driving a refresh cycle. But at the same time, and I would say even recently we're seeing improved demand on the corporate and SMB markets. But you look at consumer, you look at government, you look at federal, those have been rather challenged. And it's some of the things we've been talking about over the last few quarters, where you have competing devices in some cases.

Windows 8 has been, from our standpoint, not necessarily the catalyst to drive the accelerated growth that we had hoped it would be. We're encouraged by what's going to play out with new chipsets and some of the work that's going on even within the Windows ecosystem to hopefully over the next few months create some catalysts.

But you look at the recent external data from any of the third party sources, we would expect to continue to see over the next few quarters year on year declines in PC demand. I think we're trying to run the business based on that, and be in a position where we're in this thing for the long-term and we've positioned the business for success for the long-term.

ANANDA BARUAH: Got it. Thanks a lot.

OPERATOR: We'll take our next question from Aaron Rakers with Stifel.

AARON RAKERS: Thanks for taking the question. Just real quickly on your software, your new software segment group, last quarter you talked about Quest actually performing better than your initial plan of $180 to $200 million. Can you update us on the performance of Quest in the quarter?

And then also how are we to think about the profitability in that segment with a negative 29 percent operating margin this quarter?

BRIAN GLADDEN: I think it's progressing as we expected. And as we said in the talking points, we expect it to be accretive to the company in the first quarter next fiscal year. That was the plan we talked about when we announced the acquisition. And we're tracking towards that. I think we are, the plan that we've put together for that business with John Swainson clearly does have incremental investment as we look at adding R&D resources, as we look at more sales capacity in that business, and it's got to grow into the cost structure that we have in the software business. That's the way we're thinking about it. I would say we're tracking to that, and the team is making good progress there. And we still feel good about this.

Now the operating loss in the quarter that's sort of what we had expected as we put this business together and really got it started up, so we feel good about it.

OPERATOR: We'll take our next question from Bill Shope with Goldman Sachs.

BILL SHOPE: Thanks, guys. I wanted to get some color on how you're targeting these pricing actions we've been discussing. Can you give us perhaps an example of how you determine which accounts are strategic enough for aggressive client pricing, at least the pricing that's beyond the norm in terms of discounting? And then what areas you may be more focused on profit preservation? I'm just trying to figure out where you draw the line so to speak in terms of profit versus market share focus.

BRIAN GLADDEN: I'll give you a couple of thoughts, Bill. I think we know where long-term strategic accounts are where we can really leverage the relationship, and being in as the leader on the client side creates nice pull through in other parts of the portfolio. In many cases, those are places that we've been before and had that business, and in many ways over the last couple of years walked away. So I would say those are obvious places that we know we can actually create a nice network effect for us, and sell the broader set of solutions including the services.

So I think we've been somewhat selective and tried to focus in that part of the business. There are clearly unit volume opportunities in places like consumer through indirect channels where we could sell a lot of units. But those don't really create for us any other profit or cash flow kind of benefits. And, therefore, we're going to prioritize accounts where we can get that broader network benefit.

BILL SHOPE: Thank you.

OPERATOR: We'll take our next question from Abbey Lamba with Mizuho Securities.

ABBEY LAMBA: Thanks. Brian, you talked about corporate demand for PCs doing well. Can you touch upon is there less corporate falling off in a few quarters as people have migrated over to Win7? And as part of that can you also talk about desktop virtualization, what are you seeing in the market for that, and what are your expectations for that given your thin client business?

BRIAN GLADDEN: Well, I think the data would suggest there's still a significant Win7 refresh opportunity over the next year, really, until XP is sort of retired. And we look at that in our discussions with customers in many cases they've pushed those decisions out, and they're ort of catching up now and have to get that done in the next year.

Beyond that, obviously, it becomes a broader opportunity around touch and how that plays out in the corporate customer base, whether it's tablets or whether it's the next generation Windows 8 kind of devices.

So again, it's really up to us to create that opportunity and that ecosystem to drive that growth going forward with great products and great technology there. But, I think that's clearly something we're watching and it was for us, as we headed into the new budget year for corporate customers, something we expected to see was some of that Windows 7 work had to happen. And we're starting to see some of that.

ABBEY LAMBA: And desktop virtualization?

BRIAN GLADDEN: Yes, desktop virtualization continues to be a space that is I think of high interest to our customers in some parts of their business. And there's a lot of customers that are looking at desktop virtualization for key subsets of their workforce, where the work fits into that kind of a model. Very few customers are looking at broad, company-wide desktop virtualization kinds of implementations. So we're seeing good demand there. The Wyse business is performing well for us, and an important part of our offering, as you think about as you think about broader end user computing devices.

TOM SWEET: I think we're also happy with the pull through from the Wyse devices into or ESG business, in terms of our server and data center business. So we have seen good attach and good connectivity between those two product lines.

ROB WILLIAMS: Thanks, and just we want to be respectful of Brooke Hayes who has a call starting in just a few minutes. So Mackenzie, let's take one more question.

OPERATOR: We'll now take our final question from Brian Marshall with ISI Group.

STEPHEN PATEL: Thanks. This is Stephen Patel calling in for Brian. I had a question on your support and deployment revenue, it was up a little bit in the quarter. And do you have any thoughts on how sustainable that is in light of the decline of PC units and whether we can continue seeing increased attach rates going forward? Thanks.

TOM SWEET: Brian, it's Tom. I would tell you that we're happy with the attach rate and the SRUs we've been able to drive off of that services business. The team has done a great job of creating sort of new and innovative offers, like the pro support plus, and some of the other types of products that we're rolling out. And as a result of that, we've been able to keep the attach rate relatively high and pretty happy with sort of the pricing that goes with that. So despite some pressure from the downward units, the unit volume, it's been a good business for us and I think we continue to believe it will continue to be a good business.

BRIAN GLADDEN: And we're also seeing good growth on support deployment on the enterprise side of the business and nice attach rates there. So we think there's opportunities to continue to grow that business, even going forward.

STEPHEN PATEL: Thanks.

ROB WILLIAMS: Mackenzie, I believe that wraps it up.

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

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