Annual Report 1997

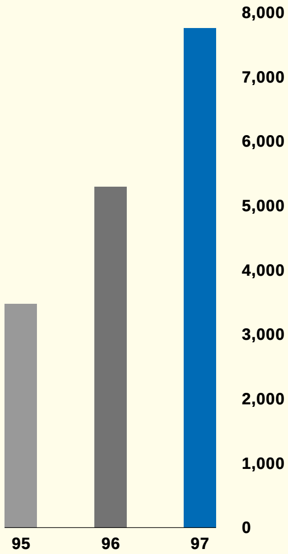
www.dell.com

Dell Computer Corporation was established in 1984 and today ranks among the world's largest computer systems companies. Dell® pioneered the concepts of selling personal computer systems directly to customers; offering build-to-order computer systems; and providing direct, toll-free technical support and next-day, on-site service. The company designs and customizes products and services to end-user requirements, and offers an extensive selection of peripherals and software. Dell's complete range of high-performance computer systems include Dell Dimension® and OptiPlex® desktop computers, Latitude® notebook computers, and PowerEdge® network servers. The company's products and services are sold in more than 140 countries and territories to customers extending from major corporations, government agencies and medical and educational institutions to small businesses and individuals. The company employs approximately 11,000 people. Headquarters are located in Round Rock, Texas, with manufacturing facilities in Austin, Texas; Limerick, Ireland; and Penang, Malaysia.

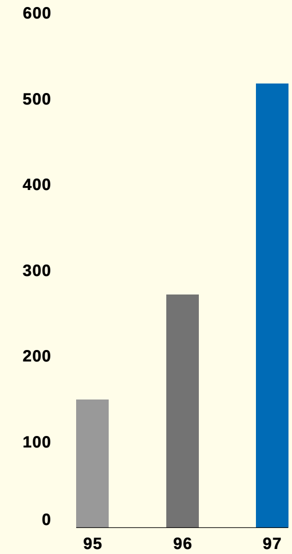
Dell's 1997 Annual Report can be found on the World Wide Web at www.dell.com.

Financial Highlights

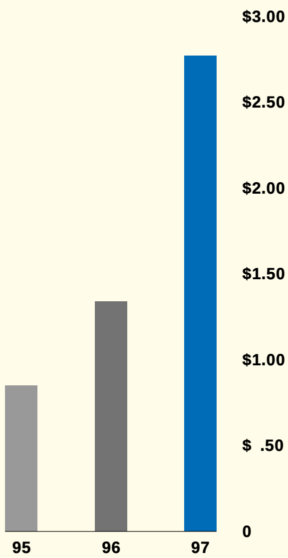
(in millions, except per share data)	Fiscal Year Ended January 29, 1995	Fiscal Year Ended January 28, 1996	Fiscal Year Ended February 2, 1997
Net sales	$3,475	$5,296	$7,759
Net income	$ 149	$ 272	$ 518
Primary earnings per common share	$ 0.85	$ 1.34	$ 2.77
Primary weighted average shares outstanding	166.2	194.2	191.8
Working capital	$ 718	$1,018	$1,089
Total assets	$1,594	$2,148	$2,993
Total stockholders' equity	$ 652	$ 973	$ 806



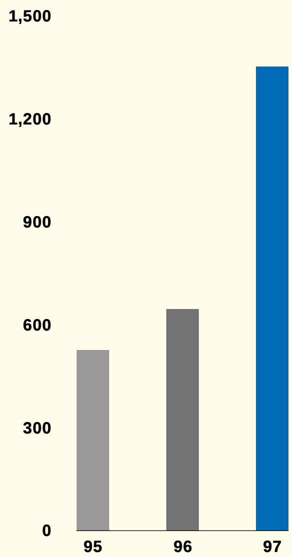
Net Sales
Dollars in millions



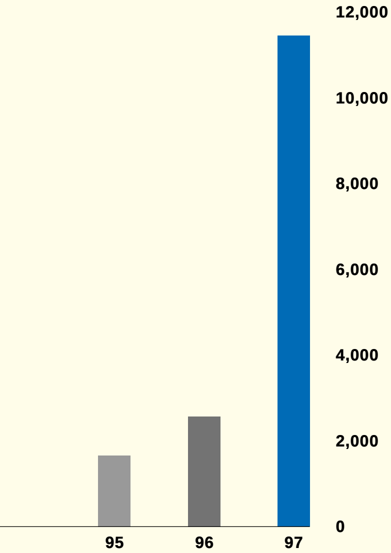
Net Income
Dollars in millions



Primary Earnings Per Common Share



Cash & Marketable Securities
Dollars in millions



Market Capitalization
Dollars in millions

In our letter to you last year, we said that if we continued to execute well, we had the opportunity to strengthen our position as one of the world's leading computer systems companies and deliver the best experience to our customers. We are pleased to report that we realized this opportunity through the hard work and dedication of Dell employees.

The year was an extraordinary one by any measure:

- Sales grew 47 percent to $7.8 billion, marking the sixth year of the last seven that Dell's annual revenues have grown twice as fast as the overall market for computer systems.
- Our net income grew faster than sales as we continued to improve costs and to capture economies of scale.
- Earnings per share rose more than 100 percent to $2.77.
- Our Board of Directors authorized the third stock split of the last five years, reflecting our commitment to share our success with our shareholders.

Our financial results stem from a decade of developing and implementing strategies designed to maximize the inherent strengths of the Dell direct business model. As we have stated often in these pages, we believe our business model will remain the engine of our growth because it provides us with a number of competitive advantages.

First, we bypass computer dealers and avoid related price markups. This became a more dramatic advantage last year as competition in the indirect channel drove up the cost of dealer incentives for many computer companies.

Second, we build each system to a specific customer order, which eliminates inventories of finished goods to resellers and enables us to move new technologies and lower-cost components into our product lines faster.

Third, our direct contacts with thousands of customers every day enable us to tailor our support offerings to fit our target markets and to control the consistency of our customer service around the world.

Fourth, we leverage our relationships with key technology partners and with our customers to incorporate the most relevant new technologies into our products rapidly.

Finally, our low inventory and low fixed-asset model gives us one of the highest returns on invested capital in our industry.

Producing superior shareholder value

Our model's competitive advantages, combined with the focus and performance of our employees, once again generated excellent shareholder returns in fiscal 1997.

Dell stock ranked number one in share price growth on the S&P 500, with a share price that has increased more than 50-fold since the company went public nine years ago.

We delivered to our shareholders a return on invested capital (ROIC) of 85 percent for the year, the highest return of any major computer systems company. We believe ROIC is the best measure of shareholder value for a high-growth company such as ours, and we began structuring our strategic business decisions around ROIC more than three years ago.

In addition, Dell's consistently superior financial performance and return to shareholders were recognized when we ranked number three on the *Business Week* 50 honor roll of the best corporate performers culled from the S&P 500.

Balancing our priorities

The high returns we deliver to our shareholders reflect our commitment to balance our market share growth against objectives for profitability and liquidity. Over the past several years, we have managed our gross margins and operating expenses together to achieve consistently superior levels of profitability.

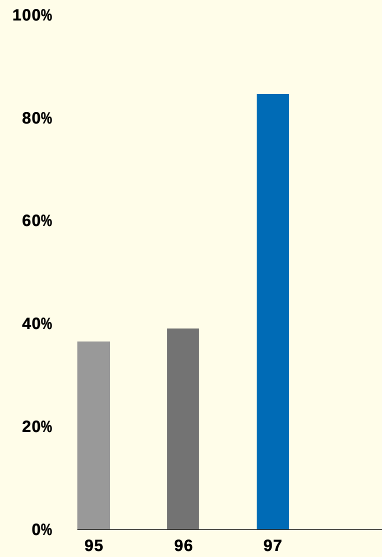
Our balanced financial performance also benefits from our low inventory operating model, which is the driving force behind our high-velocity business. At year-end, our direct model operated at 13 days of inventory, versus the 75 to 100 days in the typical indirect model.

Although our low-inventory model helps us in any market environment, our advantage was particularly conspicuous during the first half of last year when component prices were declining dramatically. In that environment, we were able to deliver substantial savings to our customers while at the same time accelerating the introduction of the latest technologies.

We have broadened our focus beyond inventory, however, to encompass all aspects of asset management including receivables and payables. The result was a cash conversion cycle — the time from vendor payment to customer collection — of negative four days at year-end.

This allowed us to generate $1.4 billion in cash from operations during the year. At this level of cash flow, we were able to fund our rapid growth internally while buying back 11 percent of our outstanding shares.

In managing our business, our goal is to sustain our momentum and continue to generate superior



Return on Invested Capital

shareholder returns by focusing on — and executing against — specific operating priorities. We have identified four priorities as keys to our growth: broadening our range of leadership products, expanding our global presence, building systems and infrastructure, and developing a world-class work force. We made solid progress against these priorities during the year.

Extending product leadership

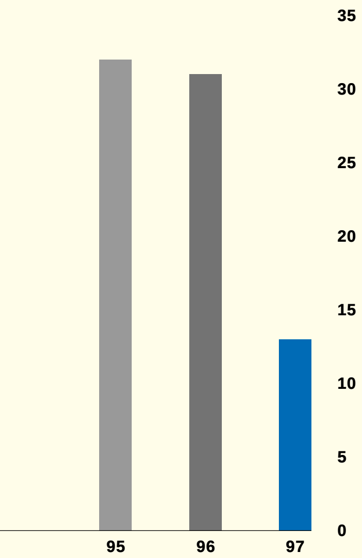
High-quality products that exceed our customers' expectations are at the heart of our business. One of the key measures of our success in developing quality products is the recognition our products receive from trade and technical journals. During the past fiscal year, Dell products garnered more than 200 awards worldwide for their quality, reliability and performance.

One of the key challenges we face is to extend the Dell brand beyond our traditionally strong desktop franchise into notebooks and network servers. While we are pleased to report that our desktops grew at an annual rate of 53 percent, we also made good progress in our effort to broaden our product portfolio.

The market for notebook computers continued to grow at a robust rate last fiscal year. Unit sales of Dell Latitude notebooks outpaced the market, increasing 69 percent as customers benefited from the recognized reliability and durability of the Dell product line. Although the opportunity for Dell in the competitive and fast-growing notebook market remains strong, this sector remains one of the most volatile in terms of component supplies.

Following 18 months of preparation in building the infrastructure needed to support an expanded server business, we launched our newest PowerEdge single and dual-processor servers at prices that made network computing more affordable for many business customers. As a result, unit sales of servers increased more than 160 percent over unit sales last fiscal year.

Our goal in the years ahead is to extend our network server offerings to the high end of the market, where multiple-processor systems are accompanied by increasingly sophisticated levels of services and support. To meet this goal, we have introduced a four-processor PowerEdge product family. We also will be extending our presence to the workstation market; and, on an ongoing basis, we are building our field force of Dell account executives, systems engineers and systems consultants, as well as extending our network of services partnerships.



Days' Sales in Inventory

Expanding globally

Acceptance of our products goes hand-in-hand with Dell's expansion around the world. We performed against our global expansion priority by strengthening our resources and market position in three primary regional operations.

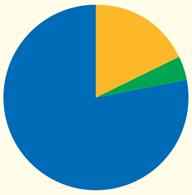
Sales in the Americas region, which includes the United States, Canada and Latin America, grew nearly three times faster than the market, to increase 52 percent over last fiscal year. During the year, we continued to structure our Americas business around defined customer groups. This segmentation has allowed us to focus more closely on unique customer needs and to better measure and optimize our performance. It is an approach we are adopting in other regions of the world as our businesses there mature.

In Europe, where overall sluggish economic conditions prevailed, Dell, which has offices in 14 countries and more than 2,000 employees, continued to advance on the strength of 36-percent sales growth. We solidified our position as the second-largest computer company in the United Kingdom, our most mature European market. We also continued to extend our direct model in the key countries of France and Germany. As a result, sales in those countries increased 65 percent and 59 percent, respectively.

The Asia-Pacific/Japan region offers enormous potential for Dell, and we continued to make significant investments there. We believe our emphasis on building long-term relationships with our customers is an important Dell advantage throughout this dynamic area, where we now have direct operations in 11 countries and distribution alliances serving 37 more. Sales in this region grew 38 percent over last fiscal year.

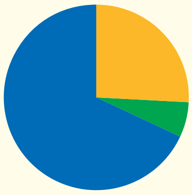
Building infrastructure

The rapid growth we have experienced presents the challenge of providing adequate infrastructure to support our size. Last year, we expanded our European manufacturing center in Limerick, Ireland, added to our production lines in Penang, Malaysia, and began construction of a second manufacturing facility in Austin, Texas, which will more than double our capacity for the Americas. We also developed dedicated production lines for network servers, using cell manufacturing to accommodate



Revenue by Product Line

- *78% Desktops*
- *4% Servers*
- *18% Notebooks*



Revenue by Region

- 68% Americas
- 6% Asia-Pacific & Japan
- 26% Europe

the specialized integration and quality testing required for these mission-critical products.

Our ongoing focus on quality, cost and productivity led us to make further improvements to existing systems and processes. At the same time, we continued to install new information systems to anticipate future requirements and to measure our business results more effectively. In an integrated business such as ours, developing state-of-the-art information systems that tightly link all operations is an evergreen challenge.

Developing a world-class work force

Ultimately, in any business, it is people who produce results. Building a talented workforce remains our greatest single priority and challenge.

This challenge contains two primary facets. The first is training, developing and retaining our existing employees so that they can continue to capitalize on the career opportunities our growth brings. The second is successfully recruiting employees at all levels to support our company, whose employee population grew 24 percent last fiscal year.

We made good progress on both fronts last fiscal year, although this will remain a critical area of focus for us.

We significantly strengthened our management team with key executives from leading companies both within and outside our industry. At the same time, more than half of our executive-level positions were filled by promoting current Dell employees.

Finally, we restructured our core training and development programs to further improve their effectiveness and, for the second consecutive year, enhanced our compensation and benefits programs, consistent with our philosophy of sharing our success with our employees.

Focusing on future opportunities

As we look ahead, we share with many in our industry the view that demand for computer systems should remain robust for several years to come.

Despite the efforts of a number of indirect channel competitors to adopt a more direct approach, the strength of our unique relationship-driven business model positions us solidly for future growth. Rather than fundamentally shifting the basics of our business, we are concentrating on further refining and extending the capabilities of our direct business model.

In fact, we have many more opportunities for growth than we can possibly pursue at any one time. Our challenge will be to focus on those areas that offer the greatest opportunities for improved service to our customers and the best possible returns for our shareholders.

The many millions of customers who have purchased computers and want to protect their investment are becoming justly intolerant of the costs to own and support them. We must work with our key technology partners to improve systems manageability and bring these costs under better control.

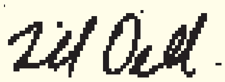
Additionally, many large business customers increasingly require specialized systems integration and services along with the purchase of their computer systems.

Although we have continued to expand our factory-integration capabilities and our portfolio of services, it will be important for us to make additional investments in this aspect of our business.

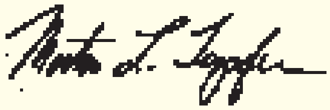
Finally, we believe the Internet offers us a unique opportunity to extend and refine our direct customer relationships. In the year ahead, we will remain focused on adding online capabilities that allow us to decrease the costs of customer transactions, as well as to improve service levels.

To conclude, let us acknowledge that many factors, including external market dynamics, contribute to a record year. We believe, however, that much of our good fortune is due to careful execution of the Dell model and to our people who have executed so well. We express our appreciation to them once again.

To our shareholders, we are grateful for your support and encouragement. We remain dedicated to the mission of increasing the value of your investment.



Michael S. Dell
Chairman of the Board,
Chief Executive Officer



Morton L. Topfer
Vice Chairman

May 1, 1997

A great year for Dell's customers

Growing Smart: Another Record Year Reflects the Benefits of Doing Business with Dell

Last year, we continued to demonstrate to our customers — and to our competitors — why more and more smart businesses prefer doing personalized business directly with Dell.

It was an extraordinary year for us on the financial front, but we are equally proud of the fact that Dell customers benefited from their experience in doing business with us. Our products offer high quality and reliability, but that's only part of our success.

The customer experience with Dell begins long before products are ordered, when our account executives in the field meet with customers in their workplaces to help them plan their new systems and select the right technologies.

It continues with our integration of new technologies into customer systems and extends beyond the life of the systems, when we help customers recycle their older products to prepare the way for new ones.

Dell has emerged as one of the world's largest computer systems companies, because year after year we continue to offer the kinds of services our customers need to derive the greatest value and productivity from their investments in technology.

By consistently taking advantage of the strengths of the direct business approach we pioneered thirteen years ago, Dell steadily has grown to become a leader in rapidly and efficiently bringing the right technologies to businesses, governments and individuals.

The next few pages highlight key aspects of our business, which we believe have contributed to making Dell a leader in customer loyalty. These include:

- personal attention,
- value-added services,
- high-quality products,
- lower total cost of ownership,
- convenience,
- and total customer focus.

Together, they add up to a compelling value for Dell customers in more than 140 countries and territories around the globe.

And they reflect our commitment to helping our customers continue to grow even smarter with us.

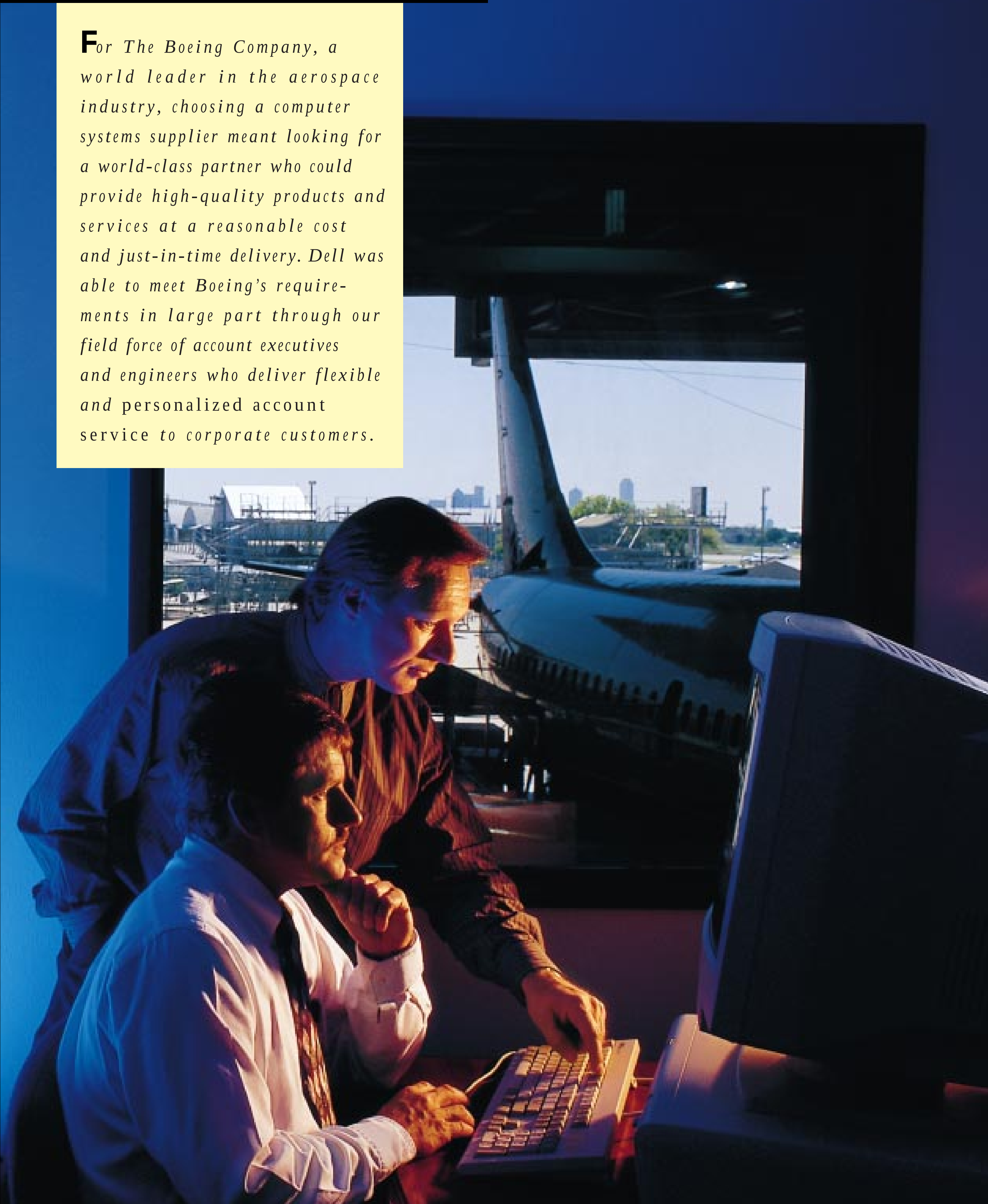
Personal attention

Dell customers increasingly are realizing the benefits they gain through personal relationships with the people who design, build and service their computers. This helps to explain why the majority of *Fortune* Global 500™ customers enjoy doing business with Dell.

Providing this kind of personal attention in serving our customers requires a hands-on approach to doing business not seen in other companies of our size in our industry. To continue to stay in the lead, we hired, trained and deployed an expanded field force of account executives, systems engineers and systems consultants in the field last year. Our expert field force works closely with customers to help them plan technology transitions,

First class account service

For The Boeing Company, a world leader in the aerospace industry, choosing a computer systems supplier meant looking for a world-class partner who could provide high-quality products and services at a reasonable cost and just-in-time delivery. Dell was able to meet Boeing's requirements in large part through our field force of account executives and engineers who deliver flexible and personalized account service *to corporate customers.*



understand new technology trends, install and maintain networks on-site for large accounts with complex systems, and resource other vital areas of managing their information technology needs.

Dell's personal attention will pay dividends for customers and the company as users increasingly move to high-performance products based on 32-bit Windows® operating systems. Of the 210 million personal computers currently in use worldwide, only about 90 million are capable of taking full advantage of the new 32-bit operating systems and applications. This implies that fully 120 million systems will need to be replaced in order for users to make complete use of the computer power now available to them.

Value-added services

The vast majority of our customers are experienced computer users with known needs and budgets. Dell helps them configure their products to meet their own requirements and specifications. As we have no finished goods inventory to sell, each computer we produce is custom-built to order.

Over the course of the year, Dell customers benefited from an enriched array of value-added services. This included enhancing our capability to help customers integrate their new Dell products into existing systems. We do this in a number of ways.

One important way is through our DellPlus service. Through DellPlus, we install commercial and proprietary software as well as hardware, such as advanced networking and peripherals, during the manufacturing process and exactly to the specifications of our customers. We configure all new hardware and software to be compatible with existing systems.

Another important service for our customers, DellWare®, provides customers with one-stop shopping for thousands of hardware and software products needed to maintain and upgrade computer systems. DellWare maintains no inventory, with orders placed electronically for immediate shipment from affiliated warehouses. This keeps costs low and affords our customers the ability to use a single purchase order with a single vendor for hardware, software, systems integration and peripherals.

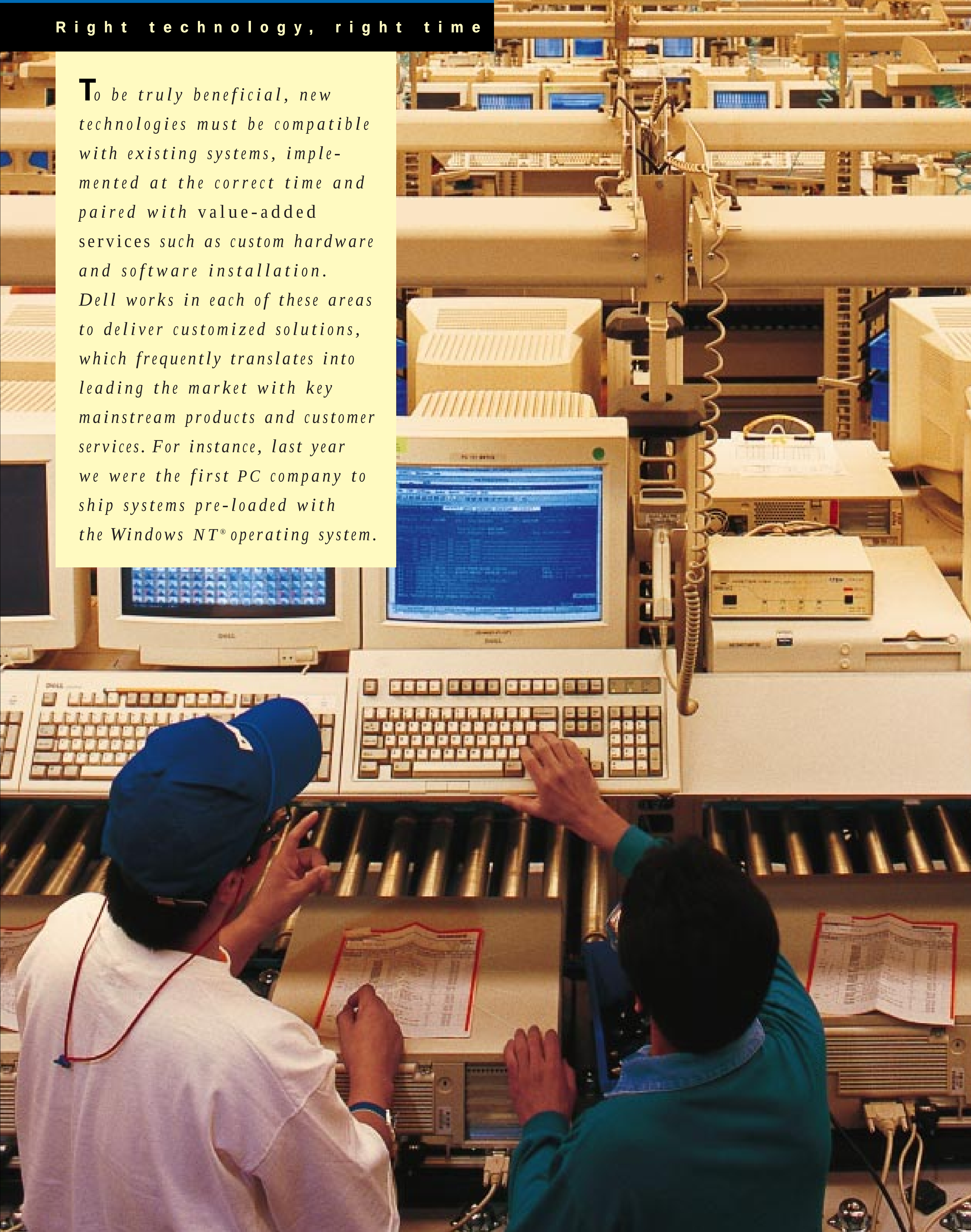
Managing the disposal of large quantities of systems can be extremely inefficient and expensive for large organizations when costs associated with administration, logistics, data security, and EPA compliance issues are considered. There are also potential future liabilities in the areas of electronic media security, EPA regulation compliance issues, and software copyright protection, if system disposal is not properly managed.

Dell's Asset Recovery Services program offers complete asset recovery and disposal services for our large customers, helping them ensure that their assets are recovered in a low-cost and efficient manner.

Dell's leasing program, together with planning assistance from Dell Asset Management Services, can assist customers in deciding if leasing would complement their technology plans. While traditional leasing often incurs

Right technology, right time

To be truly beneficial, new technologies must be compatible with existing systems, implemented at the correct time and paired with value-added services *such as custom hardware and software installation. Dell works in each of these areas to deliver customized solutions, which frequently translates into leading the market with key mainstream products and customer services. For instance, last year we were the first PC company to ship systems pre-loaded with the Windows NT® operating system.*



additional costs for the customer due to the introduction of a third party lessor, a manufacturer-affiliated program like Dell's utilizes an integrated lease-order process. Most organizations can realize substantial and measurable benefits from Dell's technology lease offerings.

High-quality products

As the computer market continues to develop, it is characterized by growing sophistication and change. In this environment, our customers know that they can count on Dell computer systems for consistent performance and reliability.

They also realize that because we have no inventory of finished goods and custom build every product to order, Dell is the quickest and most efficient way for them to obtain products with the latest technologies from Intel® and Microsoft®. Last year this enabled us to maintain a key leadership position in the transition to the latest generation of Pentium® processors and to 32-bit Windows operating systems.

Providing the right technologies at the right time may explain why our company has been growing more than twice as fast as the overall market for computer systems in six of the last seven years. It also helps to explain why Dell desktops, notebooks, and servers continue to win awards and to gain loyal customers.

Desktops. Dell Dimension and OptiPlex desktop brands showed the strength of their customer appeal last year as Dell advanced to become the second-largest seller of desktops to businesses in the U.S. and third-largest worldwide.

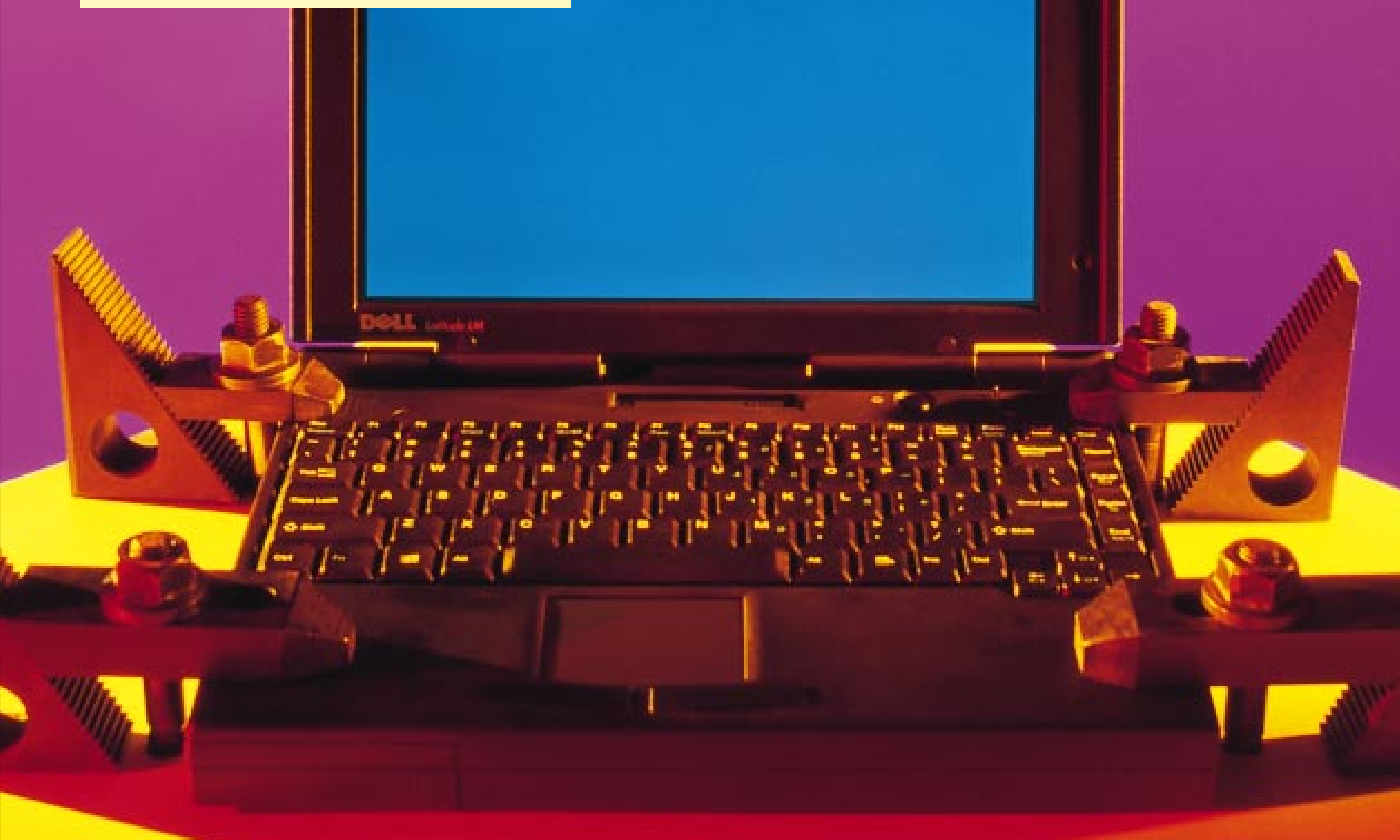
The Dimension line appeals to experienced individuals and managers of small and medium businesses. They are people who know computers and know what they want — and who recognize the value in our high-performance, state-of-the-art technology and attractive pricing. Those are among the reasons that *PC Magazine* rated Dimension as the Editor's Choice and that *PC Computing* magazine gave us its MVP award — high praise in this very competitive market.

With its integrated networking, high reliability, industry-wide compatibility and lower lifetime cost, OptiPlex is fast becoming the standard for corporations with large networks. Approximately 90 percent of Dell's revenues are generated by businesses, governments and medical and educational institutions, which appreciate the company's lower-cost, higher-performing products that are customized to their requirements. Because these customers often focus on lifetime costs and the importance of recycling, they understand the time-saving value of the new OptiPlex chassis, which opens with push-button ease and is built from entirely recyclable materials.

To further support the needs of our growing OptiPlex business, Dell has constructed a new manufacturing facility in the U.S., dedicated exclusively to this product line. New just-in-time materials, continuous-flow manufacturing and direct shipment capability streamline productivity and ensure consistent order delivery and high product reliability. Our new, high-volume cell production lines

High-quality, durable designs

Customers value reliable, high-quality products *with useful features and solid performance for the price. To meet our customers' needs, we subject our products to rigorous testing. For example, our notebooks must survive intense shaking on a vibrating table, exposure to extreme temperatures and a battery of drop tests. Not surprisingly, Dell's record of winning top industry awards is unparalleled. During fiscal 1997, Dell earned more than 200 of the industry's most coveted honors, including the #1 spot in* PC Computing *magazine's notebook torture test for the second year in a row.*



improve pilot capacity and directly integrate many DellPlus capabilities, enabling quicker time to market for new products and easier access to a broader range of custom configurations for our customers.

Notebooks. Reliability and high performance carried Dell Latitude sales and reputation to new highs. In competition with other leading brands, the Latitude has been rated a "survivor" for the past three years and won first place twice during that period in *PC Computing* magazine's Torture Test. Latitude also has won the *Business Week* Industrial Design Excellence Award and the *Mobile Office* Best Product of the Year Award, among others.

During the year, Dell added the Latitude LM to its product line. This high-performance multimedia machine with long-lasting battery life features an integrated CD-ROM drive, interchangeable components and outstanding video and stereo sound.

Servers. Standardization is the trend in the network server market, where customers increasingly are choosing systems based on the open standards established by Intel and Microsoft to reduce the costs associated with multiple system architectures. As a longtime advocate of open standards, Dell capitalized on this trend by introducing a new family of PowerEdge network servers, based on Intel's Pentium Pro processor and optimized for Windows NT and Novell NetWare® operating systems. The new line includes the entry-level PowerEdge 2100 system, the mid-range PowerEdge 4100 system and the high-performance PowerEdge 6100 system.

The PowerEdge family satisfies customers' server requirements from smaller workgroups to large enterprises. Customer acceptance of our new server offerings was illustrated dramatically by the fact that our company rapidly advanced to the fourth-largest supplier of servers in the world last year.

Dell's 18-month investment in developing a major server business is paying off for our customers, who are benefiting from the price-for-performance leadership we have brought to the server marketplace. Our leadership was recognized by the Transaction Processing and Performance Council (TPC) when our PowerEdge 6100 server ranked number one and set a new TPC-C record in price-for-performance in benchmark results for systems running Windows NT Server 4.0 and SQL Server 6.5.

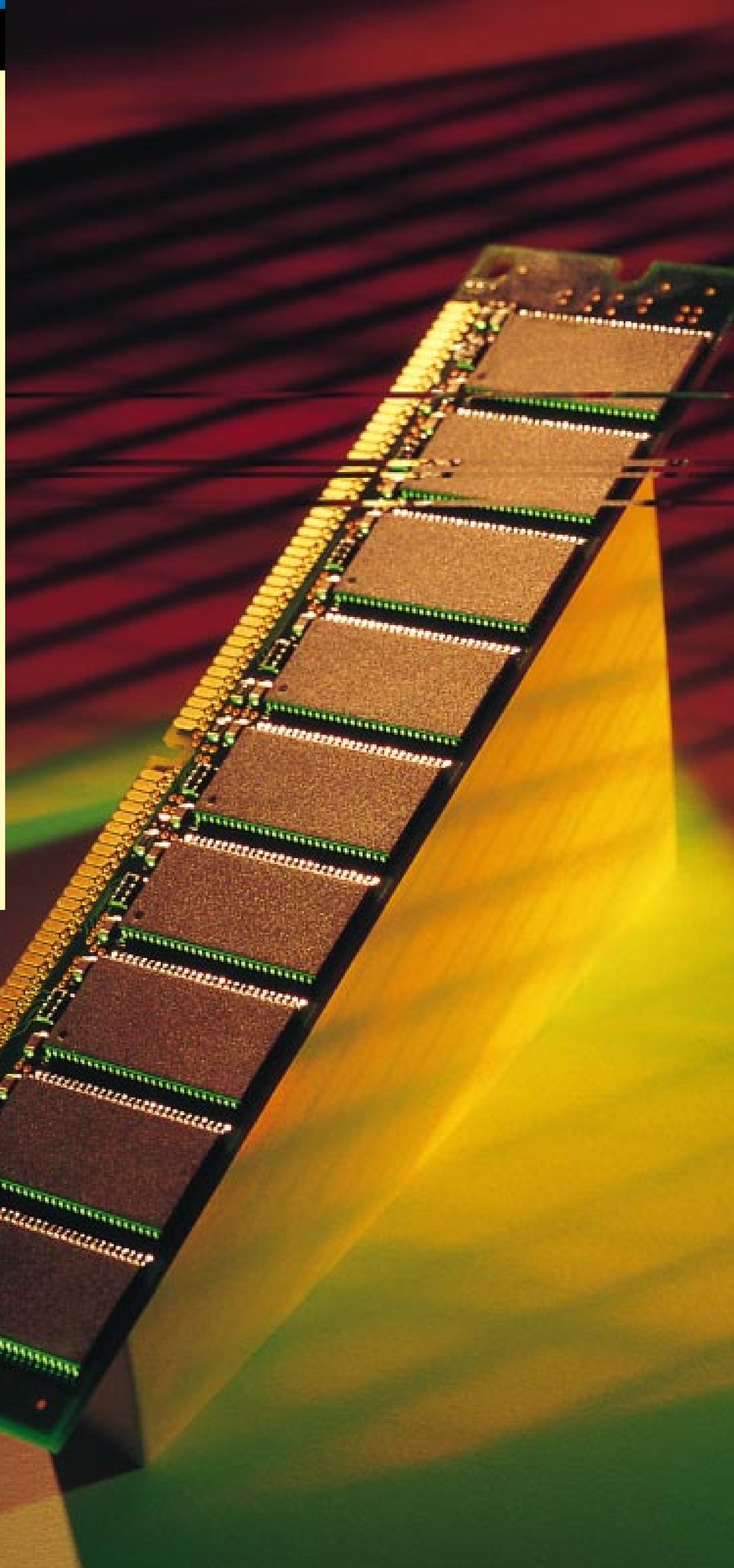
During the year the company also opened a dedicated server facility in Austin, Texas, that employs cell manufacturing to support the high levels of customization and quality inherent in network server production. Work areas, or cells, are designed to support highly trained technicians who are individually responsible for the quality of specific systems, from assembly through final testing.

Lower total cost of ownership

The average annual costs of computers, according to some analysts, can range upwards of $10,000. So, it is not surprising that businesses, especially large corporations, are focusing more and more on ways to lower their total cost of ownership over the lifetime of their computers. Corporations typically utilize thousands of computers and must try to

Lower total cost

Computer components, like memory chips, lose value every day they sit on the shelf. Dell's low-inventory direct business model allows our customers to obtain relevant new technologies rapidly and reap the benefits of component cost savings. And Dell delivers additional savings throughout the lifecycle of the computer with programs like asset management and flexible business leasing. Providing our customers with lower cost solutions is one reason Eastman Chemical Company made Dell its primary desktop and server systems supplier. It's also one reason Dell has become the second-largest desktop computer supplier to corporate America.



efficiently manage them, the people who use and service them, and the complex information systems to support them.

With our efficient direct business model and focus on business customers, Dell is able to deliver lower total cost of ownership to large organizations around the globe. Beginning with our *lower acquisition costs* and extending to our *asset recovery and disposal programs,* Dell can directly affect many of the costs associated with Intel-based computer ownership.

Proper software management practices offer a significant opportunity for lowering total cost of ownership. Large organizations need to focus on reducing all aspects of software management, including the total costs associated with acquisition, inventory, distribution, installation, training and support.

Volume license programs provide corporate customers with an avenue for reducing overall software acquisition costs. Dell's *Volume License Program* benefits include substantial discounts for shrink-wrap package prices, the ability to electronically distribute software licenses and Dell management of the customer's volume license agreement. Dell is one of a few computer hardware manufacturers authorized as a Volume License Reseller by leading software manufacturers, including Microsoft, Lotus® and Novell®.

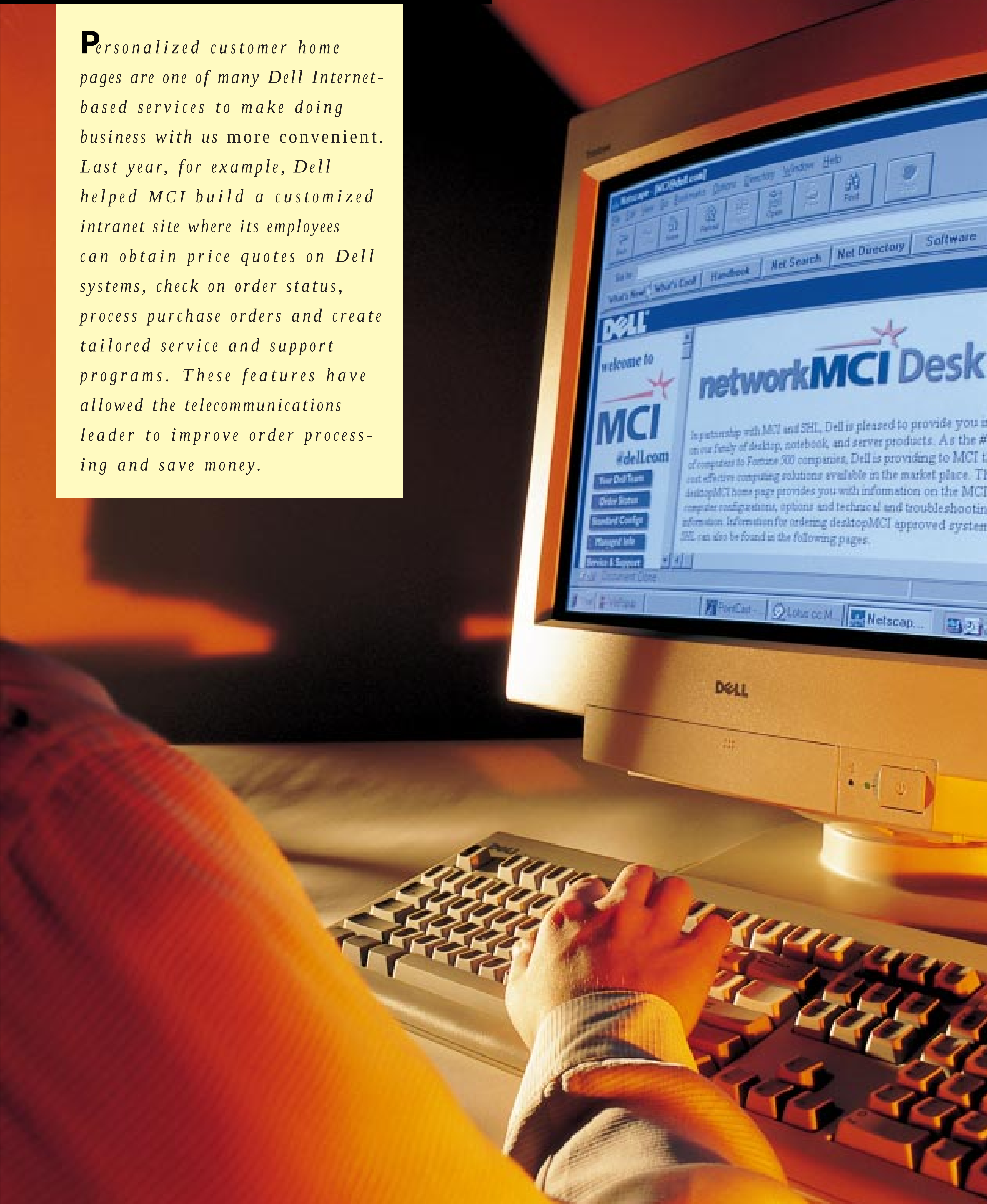
Installation is another service through which Dell delivers lower total cost of ownership. Installation, setup and diagnostics must be performed every time organizations purchase new computer systems. These costs can become very significant for large organizations that deploy significant numbers of network servers.

There also are significant costs associated with *planning technology rotations.* Organizations that proactively manage these costs have an opportunity for cost reduction through better decision making. A direct relationship with Dell allows large organizations to work closely with the company to evaluate future technology directions, plan for development of standards and understand when best to replace existing computer systems.

Another costly area for large organizations is system downtime, which centers around two concerns: 1) system reliability and 2) quick resolution of problems. To address the first concern, Dell designed PowerEdge network servers with the highest standards of quality and reliability. Dell's *parts management* capability directly addresses the second issue, because when replacement parts are needed, the company typically offers next business day replacement for defective parts for three years. The *next business day warranty* reduces the need for large organizations to stock spare parts. This can have a significant cost savings, particularly for those organizations with computing centers spread across multiple locations.

In addition, through *SelectCare®*, Dell provides PowerEdge server customers with a broad program of exceptional service and support, which includes support from dedicated server and network operating system engineers, assigned specialist technical support teams, on-site Dell system engineers, lifetime hardware hotline support, server installation and on-site validation.

Personalized customer home pages are one of many Dell Internet-based services to make doing business with us more convenient. *Last year, for example, Dell helped MCI build a customized intranet site where its employees can obtain price quotes on Dell systems, check on order status, process purchase orders and create tailored service and support programs. These features have allowed the telecommunications leader to improve order processing and save money.*



Convenience

Customers increasingly are choosing and staying with Dell as their computer systems supplier because they value the convenience that our direct business model provides them.

They appreciate how Dell makes their experience easier at every step, from deciding on the purchase of new systems to disposing of old systems as a new product cycle begins. They value how we deliver lower initial cost through the elimination of reseller markups, custom build each computer to order, provide a single point of contact for all computer system needs, and deliver customized services throughout the process.

To continue to be a leader in customer loyalty, we constantly are making investments to enhance customer convenience. One of the most significant investments we are making is in the Internet.

There are an estimated 50 million Internet users worldwide, and some analysts see that number doubling every year. Internet commerce is estimated to exceed $200 billion by the year 2000.

Business is leading the growth of the Internet, with research indicating that more than 80 percent of all *Fortune* 500® companies already provide Internet access to employees. This suggests that the Internet is a medium with which most of Dell's customers already are familiar.

We believe the Internet is the ultimate extension of Dell's direct business approach. From dedicated sites for larger companies to online ordering for knowledgeable consumers, we are using the Internet to further evolve the direct model we pioneered more than a decade ago.

For corporate, government and education accounts, Dell has developed a number of online programs such as password-protected sites that are customized for a specific account. This means a large account will have its own customized home page within the Dell web site, with quick access to critical information such as approved system configurations, contract pricing, specialized management reports and literally tens of thousands of pages of technical data.

We introduced commerce through our Internet site in July 1996. By fiscal year end, more than 150,000 customers were visiting our web site each week, generating sales of approximately $1 million per day.

Our experience shows that online customers are not just low-value transaction purchasers, but range from knowledgeable home users to small and large businesses purchasing richly configured systems, up to high-end $30,000 servers.

Individual customers can place orders electronically, with the full range of services they expect from the world's leading direct computer systems company, including product information, order status and product support. Within the Dell Internet site, customers can evaluate multiple configurations and obtain instant price quotes to configure the best possible system for their budgetary and performance requirements.

Computers are anything but "one size fits all." Dell customers range from the large multinational corporations, who benefit from the consistency and convenience of our Global Enterprise Program, to sophisticated individuals, whose requirements are vastly different. Recognizing this, we organize our operations with a total customer focus, based on distinct customer segments. And, using our unique direct model as the foundation, we tailor our approach to fit local customer and market characteristics in regions around the world as diverse and dynamic as Asia-Pacific, where we continue to significantly grow our presence.

In addition we keep electronic account information for each customer. The file, available to our customer any time, shows data for the initial purchase and all later transactions for upgrades, peripherals, software and service.

Dell's web site is open for business 24 hours a day. Customers and shareholders are invited to visit our site at www.dell.com and click "Buy a Dell."

Total customer focus

Dell was established with a fundamental belief that the direct business approach was the best way to get closer to the customer. We continue to build upon that belief by organizing our business around the realization that different types of customers have substantially different needs.

Multinational customers, for example, need consistency across geographic regions around the globe from their computer supplier. We are ourselves, like many of our customers, a global company operating in almost every industrial country of the world. Therefore, we know that our customers must be able to budget for standard products that can be integrated into worldwide systems.

Our Global Enterprise Program allows multinational customers the capability to procure Dell products manufactured in our plants in Texas, Ireland and Malaysia, for delivery to any number of locations in all parts of the world — with consistent technology, pricing and service contracts.

Even with central purchasing, each product is configured to meet local needs and languages, and customers have the advantage of working with a local service provider. By providing a single point of contact, Dell's global account management also allows for ease of communication and planning. The value of these benefits to multinational companies was evident, as we grew our Global Enterprise Program accounts more than 40 percent last year.

Even companies within a region have specialized requirements. Consequently, we further refined the way we manage our major customer businesses during the past year.

In our Americas region, for example, business customers now are served by distinct business units, each with a full-time focus on the specific needs of its customers. One group works with major corporations, another with medium-sized businesses and another with small businesses and knowledgeable consumers. The public sector — federal, state and local governments and education — represents another customer segment where we have created a business unit focused exclusively on its requirements.

As our business grows, we will continue to evaluate the differences in customer needs — and to tailor our products and services accordingly.

At Dell, we remain committed to retaining a total customer focus. We talk directly with tens of thousands of customers every day and build long-term relationships with them. These direct relationships provide us with a constant flow of invaluable information, which enables us to provide the systems and value-added services most relevant to customer needs around the world.

They allow us — and our customers — to keep growing smart together.

The following selected financial data should be read in conjunction with the Consolidated Financial Statements, including the related notes, and "Management's Discussion and Analysis of Financial Condition and Results of Operations." The information set forth below is not necessarily indicative of the results of future operations.

	Fiscal Year Ended				
	February 2, 1997	*January 28, 1996*	*January 29, 1995*	*January 30, 1994*	*January 31, 1993*
	(in millions, except per share data)				
Statement of Operations Data:					
Net sales	$7,759	$5,296	$3,475	$2,873	$2,014
Gross margin	$1,666	$1,067	$ 738	$ 433	$ 449
Operating income (loss)	$ 714	$ 377	$ 249	$ (39)	$ 139
Income (loss) before extraordinary loss	$ 531	$ 272	$ 149	$ (36)	$ 102
Net income (loss)	$ 518	$ 272	$ 149	$ (36)	$ 102
Income (loss) before extraordinary loss per common share[a] [b]:					
Primary	$ 2.77	$ 1.34	$ .85	$ (.27)	$ 0.65
Fully diluted	$ 2.70	$ 1.32	$ .79	$ —	$ —
Weighted average shares outstanding[a]:					
Primary	191.8	194.2	166.2	149.3	156.9
Fully diluted	197.1	197.4	189.3	—	—
Statement of Financial Position Data:					
Working capital	$1,089	$1,018	$ 718	$ 510	$ 359
Total assets	$2,993	$2,148	$1,594	$1,140	$ 927
Long-term debt	$ 18	$ 113	$ 113	$ 100	$ 48
Total stockholders' equity	$ 806	$ 973	$ 652	$ 471	$ 369

(a) All share and per share information has been retroactively restated to reflect the two-for-one split of the Common Stock in December 1996. See Note 6 of Notes to Consolidated Financial Statements.
(b) Excludes extraordinary loss of $0.07 per common share for fiscal 1997. See Note 2 of Notes to Consolidated Financial Statements.

Results of Operations

The Company's goal is to maximize shareholder value through a strategy that focuses on a balance of three priorities: liquidity, profitability and growth. The Company has clearly demonstrated strong performance in each of these objectives, illustrating the fundamental advantages of the direct business model. The following discussion provides information that management believes is relevant to an understanding of the Company's consolidated financial condition and results of operations. This discussion should be read in conjunction with the Consolidated Financial Statements.

The following table summarizes the results of the Company's operations for each of the past three fiscal years. All percentage amounts were calculated using the underlying data in thousands.

	Fiscal Year Ended				
	Feb. 2, 1997	*Increase*	*Jan. 28, 1996*	*Increase*	*Jan. 29, 1995*
	(dollars in millions)				
Net sales	$7,759	47%	$5,296	52%	$3,475
Gross margin	$1,666	56%	$1,067	45%	$ 738
Gross margin as a percentage of net sales	21.5%		20.2%		21.2%
Operating expenses	$ 952	38%	$ 690	41%	$ 489
Operating expenses as a percentage of net sales	12.3%		13.1%		14.1%
Operating income	$ 714	90%	$ 377	51%	$ 249
Operating income as a percentage of net sales	9.2%		7.1%		7.1%
Net income available to common stockholders	$ 518	99%	$ 260	85%	$ 140

Net Sales

The Company has become one of the top five computer vendors in the world as a result of its continued sales growth. The increases in consolidated net sales for both fiscal 1997 and fiscal 1996 were primarily attributable to increased units sold. Unit volumes increased 55% and 48% for fiscal 1997 and fiscal 1996, respectively.

The unit volume growth in fiscal 1997 resulted from strong demand for the Company's products across all product lines. This growth reflects the Company's aggressive sales efforts, including pricing actions aimed at winning new customer accounts and increasing the penetration of existing customer accounts. While desktop products remain the primary driver of unit volumes (comprising 86% of total units shipped during fiscal 1997), the growth rates in both the server and notebook product lines exceeded the growth rate in desktops during fiscal 1997. Unit sales of notebook computers and server products increased 70% and 160%, respectively, during fiscal 1997.

The effect of the increased unit volumes on consolidated net sales was partially offset by a decline in average revenue per unit, which decreased 6% for fiscal 1997 compared with fiscal 1996. The decline in average revenue per unit resulted primarily from the Company's pricing actions following significant component cost declines.

The unit volume increase in fiscal 1996 was due primarily to increased demand for the Company's desktop and notebook computer products. Furthermore, the increase in net sales in fiscal 1996 was partially attributable to an increase in average revenue per unit of 3%, resulting from an increase in the mix of system revenue from Pentium-processor based products as well as from notebook computers.

The Company experienced growth in net sales in all geographic regions in both fiscal 1997 and fiscal 1996. The following table summarizes the Company's net sales by geographic area for each of the past three fiscal years:

	Fiscal Year Ended					
	Feb. 2, 1997		*Jan. 28, 1996*		*Jan. 29, 1995*	
	(dollars in millions)					
Net sales:						
Americas	$5,279	68%	$3,474	66%	$2,400	69%
Europe	2,004	26%	1,478	28%	953	27%
Asia-Pacific and Japan	476	6%	344	6%	122	4%
Consolidated net sales	$7,759	100%	$5,296	100%	$3,475	100%

The Company believes that opportunity exists for continued worldwide growth, to be achieved by increasing its market presence in existing markets, entering new markets and pursuing additional product opportunities. In fiscal 1997, the Company commenced sales through an Internet web site (located at www.dell.com), which by year-end was generating sales in excess of $1 million per day.

Management believes that the Internet will become a significant sales and service medium for the Company in the future. Additionally during fiscal 1997, the Company expanded its direct operations in the Asia-Pacific region into five new countries, including Thailand, South Korea and Taiwan. The Company also intends to expand its product offerings to include workstations. During fiscal 1998, the Company will form a business unit dedicated to workstations in order to expand this product line. As a result of these and other opportunities, the Company began construction of a new 285,000 square-foot manufacturing facility in Austin, Texas which will manufacture desktop computers for the Americas region. The new manufacturing facility will begin shipment of product during the first half of fiscal 1998. Also during fiscal 1997, the Company opened a dedicated server facility.

Gross Margin

The increase in gross margin as a percentage of consolidated net sales in fiscal 1997 over fiscal 1996 is the result of several factors, including component cost declines, which were partially offset by price reductions, and product mix shift to notebooks, servers and higher-end desktop products. The Company's direct business model involves the maintenance of low levels of inventory. As such, component cost declines can have a significant and direct impact on overall product costs. During fiscal 1997, significant component cost declines occurred, particularly in memory components, reducing overall product costs. However, the Company's aggressive pricing strategies reduced the impact of these declines on gross margin. Further gross margin benefit was realized as sales of notebook and server products, which generally carry higher margins, increased to 18% and 4%, respectively, of system revenue compared with 16% and 3%, respectively, during the prior fiscal year.

The gross margin decline as a percentage of consolidated net sales in fiscal 1996 resulted primarily from a slight shift in sales mix from major accounts to small-to-medium businesses and individuals, which typically carry lower margins, and from the Company's more aggressive pricing strategy in fiscal 1996 compared with fiscal 1995. Additionally, a problematic product transition involving certain of the Company's OptiPlex desktop products had an adverse effect on gross margin for fiscal 1996. These negative effects on gross margin were partially offset by lower warranty and inventory obsolescence costs as a percentage of consolidated net sales and certain economies of scale.

Operating Expenses

The following table presents certain information regarding the Company's operating expenses during each of the last three fiscal years:

	Fiscal Year Ended		
	Feb. 2, 1997	*Jan. 28, 1996*	*Jan. 29, 1995*
		(dollars in millions)	
Operating expenses:			
Selling, general and administrative	$826	$595	$424
Percentage of net sales	10.7%	11.3%	12.2%
Research, development and engineering	$126	$ 95	$ 65
Percentage of net sales	1.6%	1.8%	1.9%
Total operating expenses	$952	$690	$489
Percentage of net sales	12.3%	13.1%	14.1%

Selling, general and administrative expenses increased in absolute dollar amounts but declined as a percentage of consolidated net sales for both fiscal 1997 and fiscal 1996. The increase in absolute dollars was due primarily to the Company's increased staffing worldwide and increased infrastructure expenses, including information systems, to support the Company's continued growth. The decline in selling, general and administrative expenses as a percentage of consolidated net sales resulted from significant net sales growth.

The Company continues to fund research, development and engineering activities to meet the demand for swift product cycles. As a result, research, development and engineering expenses have increased each year in absolute dollars due to increased staffing levels and product development costs. The Company expects to continue to increase research, development and engineering spending in absolute dollar amounts in order to invest in future new products.

The Company believes that its ability to manage operating costs is an important factor in its ability to remain price competitive. The Company will continue to invest in information systems, personnel and other infrastructure, and in research, development and engineering activities to manage and support its growth and to provide for new, competitive products. Although operating expenses are expected to increase in absolute dollar terms, the Company's goal is to manage these expenses, over time, relative to its net sales and gross margin.

Operating Income

While delivering outstanding revenue growth, averaging 40% over the past three fiscal years, the Company has grown operating income in excess of 50% per year during the last three fiscal years. This reflects the Company's success in managing operating expenses in relation to growth in gross margin to deliver consistent, bottom-line performance.

Financing and Other Income (Expense), Net

The $27 million increase in financing and other income (expense), net in fiscal 1997 from fiscal 1996 resulted primarily from increased investment income of $16 million as well as a decrease in interest expense of $8 million. The increase of $42 million in financing and other income (expense), net in fiscal 1996 from fiscal 1995 was due to an increase in investment income. During fiscal 1995, the Company incurred a net investment loss of $31 million primarily as a result of interest rate increases in the United States, Canadian, Japanese and European interest rate markets.

Income Taxes

The Company's effective tax rate was 29.0% for both fiscal 1997 and 1996, compared with 30.0% for fiscal 1995. As a result of the Company's geographical distribution of income, the Company's effective tax rate is lower than the U.S. federal statutory rate of 35%. Changes in the effective tax rate may result from changes in the geographical distribution of income and losses. The Company believes that these changes may result in a higher effective tax rate during fiscal 1998.

Liquidity and Capital Resources

The following table presents selected financial statistics and information for each of the past three fiscal years:

	Fiscal Year Ended		
	Feb. 2, 1997	Jan. 28, 1996	Jan. 29, 1995
	(dollars in millions)		
Cash and marketable securities	$1,352	$ 646	$527
Working capital	$1,089	$1,018	$718
Days of sales in accounts receivable	37	42	47
Days of supply in inventory	13	31	32
Days in accounts payable	54	33	44

In adhering to its goal of balancing profitability and growth with liquidity, the Company has significantly enhanced its focus on asset management. As an indication of its success of this effort, the Company generated $1.4 billion in cash flows from operating activities during fiscal 1997 compared with $175 million in cash flows from operating activities during fiscal 1996. Operating cash flows benefited from the significant decline in days of supply in inventory at the end of fiscal 1997 compared to the end of fiscal 1996, which resulted from tighter inventory management and improved supply of component parts. Operating cash flows further benefited from the increase in days in accounts payable at the end of fiscal 1997 compared to fiscal 1996 and the decrease in days of sales in accounts receivable at the end of fiscal 1997 from the end of fiscal 1996.

During fiscal 1997, the Company repurchased 20 million shares of its Common Stock for an aggregate cost of $503 million. The Company is currently authorized to repurchase up to 30 million additional shares of its Common Stock and anticipates that repurchases under this program will constitute a significant use of future cash resources. For additional information regarding the Company's stock repurchase program, see Note 6 of Notes to Consolidated Financial Statements.

Also during fiscal 1997, the Company repurchased $95 million principal amount of its outstanding $100 million 11% Senior Notes Due August 15, 2000. As a result, the Company recorded an extraordinary loss of $12.9 million (net of tax benefit of $7.0 million) during fiscal 1997.

The Company utilized $114 million in cash during fiscal 1997 primarily to construct and equip manufacturing and office facilities. The Company expects to spend approximately $180 million on capital expenditures during fiscal 1998 to support the Company's continued growth. The Company believes that its cash and marketable securities and cash flows from operating activities will be adequate to fund its planned fiscal 1998 capital expenditures.

During fiscal 1997, the Company entered into a $100 million 364-day revolving credit facility and a $150 million 3-year revolving credit facility. Additionally, during fiscal 1996, the Company entered into a transaction which gives the Company the ability to raise up to $150 million through a receivables securitization agreement. At both February 2, 1997 and January 28, 1996, these facilities were unused.

Management believes that sufficient resources will be available to meet the Company's cash requirements through at least the next twelve months. Cash requirements for periods beyond the next twelve months depend on the Company's profitability, its ability to manage working capital requirements and its rate of growth.

Hedging Activities

The Company's results of operations can be affected by changes in exchange rates between certain foreign currencies and the United States dollar. The Company conducts a foreign currency hedging program to reduce its exposure to the risk that the dollar-value equivalent of anticipated cash flows will be adversely affected by changes in foreign currency exchange rates. The Company uses foreign currency purchased option contracts and forward contracts in an effort to reduce its exposure to currency fluctuations involving anticipated, but not firmly committed, transactions and transactions with firm foreign currency commitments. However, there can be no assurance the Company's foreign exchange risk management activities will offset potential adverse effects in financial position resulting from unfavorable movements in foreign exchange rate markets. For further information regarding hedging activities and their effect on the Company's financial statements, see Note 1 and Note 2 of Notes to Consolidated Financial Statements.

Consolidated Statement of Financial Position

Dell Computer Corporation

(in millions, except share data)

	February 2, 1997	*January 28, 1996*
Assets		
Current assets:		
Cash	$ 115	$ 55
Marketable securities	1,237	591
Accounts receivable, net	903	726
Inventories	251	429
Other current assets	241	156
Total current assets	2,747	1,957
Property, plant and equipment, net	235	179
Other assets	11	12
	$2,993	$2,148
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$1,040	$ 466
Accrued and other liabilities	618	473
Total current liabilities	1,658	939
Long-term debt	18	113
Deferred revenue on warranty contracts	219	116
Other liabilities	13	7
Commitments and contingencies	—	—
Total liabilities	1,908	1,175
Put options	279	—
Stockholders' equity:		
Preferred stock and capital in excess of $.01 par value; shares authorized: 5,000,000; shares issued and outstanding: none and 60,000, respectively	—	6
Common stock and capital in excess of $.01 par value; shares authorized: 300,000,000; shares issued and outstanding: 173,047,420 and 186,893,214, respectively	195	430
Retained earnings	647	570
Other	(36)	(33)
Total stockholders' equity	806	973
	$2,993	$2,148

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

Consolidated Statement of Income

Dell Computer Corporation

(in millions, except per share data)

	Fiscal Year Ended		
	February 2, 1997	*January 28, 1996*	*January 29, 1995*
Net sales	$7,759	$5,296	$3,475
Cost of sales	6,093	4,229	2,737
Gross margin	1,666	1,067	738
Operating expenses:			
Selling, general and administrative	826	595	424
Research, development and engineering	126	95	65
Total operating expenses	952	690	489
Operating income	714	377	249
Financing and other income (expense), net	33	6	(36)
Income before income taxes and extraordinary loss	747	383	213
Provision for income taxes	216	111	64
Income before extraordinary loss	531	272	149
Extraordinary loss, net of taxes	(13)	—	—
Net income	518	272	149
Preferred stock dividends	—	(12)	(9)
Net income available to common stockholders	$ 518	$ 260	$ 140
Primary earnings per common share:			
Income before extraordinary loss	$ 2.77	$ 1.34	$ 0.85
Extraordinary loss, net of taxes	(.07)	—	—
Earnings per common share	$ 2.70	$ 1.34	$ 0.85
Fully diluted earnings per common share:			
Income before extraordinary loss	$ 2.70	$ 1.32	$ 0.79
Extraordinary loss, net of taxes	(.07)	—	—
Earnings per common share	$ 2.63	$ 1.32	$ 0.79
Weighted average shares outstanding:			
Primary	191.8	194.2	166.2
Fully diluted	197.1	197.4	189.3

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

Consolidated Statement of Cash Flows

Dell Computer Corporation

(in millions)

	Fiscal Year Ended		
	February 2, 1997	*January 28, 1996*	*January 29, 1995*
Cash flows from operating activities:			
Net income	$ 518	$ 272	$ 149
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	47	38	33
Other	29	22	33
Changes in:			
Operating working capital	659	(195)	(11)
Non-current assets and liabilities	109	38	39
Net cash provided by operating activities	1,362	175	243
Cash flows from investing activities:			
Marketable securities:			
Purchases	(9,538)	(4,545)	(4,644)
Maturities and sales	8,891	4,442	4,464
Capital expenditures	(114)	(101)	(64)
Net cash used in investing activities	(761)	(204)	(244)
Cash flows from financing activities:			
Purchase of Common Stock	(495)	—	—
Repurchase of 11% Senior Notes	(95)	—	—
Issuance of Common Stock under employee plans	57	48	35
Proceeds from long-term debt	—	—	14
Repayments of borrowings	—	(1)	(1)
Preferred stock dividends and conversion premium	—	(13)	(9)
Net cash (used in) provided by financing activities	(533)	34	39
Effect of exchange rate changes on cash	(8)	7	2
Net increase in cash	60	12	40
Cash at beginning of period	55	43	3
Cash at end of period	$ 115	$ 55	$ 43

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

Consolidated Statement of Stockholders' Equity

Dell Computer Corporation

(in millions)

	Preferred Stock and Capital in Excess of Par Value		Common Stock and Capital in Excess of Par Value				
	Shares	*Amount*	*Shares*	*Amount*	*Retained Earnings*	*Other*	*Total*
Balances at January 30, 1994	1	$120	152	$200	$171	$(20)	$471
Net income	—	—	—	—	149	—	149
Stock issuance under employee plans, including tax benefits	—	—	7	42	—	(4)	38
Other	—	—	—	—	(9)	3	(6)
Balances at January 29, 1995	1	120	159	242	311	(21)	652
Net income	—	—	—	—	272	—	272
Stock issuance under employee plans, including tax benefits	—	—	8	74	—	(17)	57
Preferred stock conversion	(1)	(114)	20	114	—	—	—
Other	—	—	—	—	(13)	5	(8)
Balances at January 28, 1996	—	6	187	430	570	(33)	973
Net income	—	—	—	—	518	—	518
Stock issuance under employee plans, including tax benefits	—	—	1	65	—	(18)	47
Purchase and retirement of 15 million shares	—	—	(15)	(22)	(388)	—	(410)
Purchase and reissuance of 5 million shares for employee plans and preferred stock conversion	—	(6)	—	—	(55)	—	(61)
Reclassification of put options	—	—	—	(279)	—	—	(279)
Other	—	—	—	1	2	15	18
Balances at February 2, 1997	—	$ —	173	$195	$647	$(36)	$806

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

Note 1 — Description of Business and Summary of Significant Accounting Policies

Description of Business — The Company designs, develops, manufactures, markets, services and supports a wide range of computer systems, including desktops, notebooks and network servers, and also markets software, peripherals and service and support programs. The Company markets its computer products and services under the Dell® brand name directly to its customers. These customers include major corporate, government, medical and education accounts, as well as small-to-medium businesses and individuals. The Company supplements its direct marketing strategy by marketing through value-added resellers. The Company conducts operations worldwide through wholly owned subsidiaries; such operations are primarily concentrated in the United States and Europe.

Fiscal Year — The Company's fiscal year is the 52 or 53 week period ending on the Sunday nearest January 31.

Principles of Consolidation — The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include the accounts of Dell Computer Corporation and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

Reclassifications — Certain reclassifications have been made in the prior years for consistent presentation.

Use of Estimates — The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at fiscal year end and the reported amounts of revenues and expenses during the fiscal year. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

Marketable Securities — The Company's marketable securities are classified as available-for-sale and, accordingly, are reported at fair value. Unrealized gains and losses are reported, net of taxes, as a component of stockholders' equity. Unrealized losses are charged against income when a decline in fair value is determined to be other than temporary. The specific identification method is used to determine the cost of securities sold.

Inventories — Inventories are stated at the lower of cost or market, with cost being determined on a first-in, first-out basis.

Property, Plant and Equipment — Property, plant and equipment is carried at cost. Depreciation is provided using the straight-line method over the economic lives of the assets, which range from seven to 30 years for buildings and two to five years for all other assets. Leasehold improvements are amortized over the shorter of five years or the lease term.

Foreign Currency Translation — The majority of the Company's international sales are made by international subsidiaries which have the U.S. dollar as their functional currency. Financial statements for international subsidiaries which have the U.S. dollar as the functional currency are remeasured into U.S. dollars using current rates of exchange for monetary assets and liabilities and historical rates of exchange for nonmonetary assets. Gains and losses from remeasurement are included in financing and other income (expense), net. The Company's other international subsidiaries that prepare financial statements in currencies other than the U.S. dollar translate assets and liabilities at current rates of exchange at the balance sheet date. The resultant gains and losses from translation are included as a component of stockholders' equity. Income and expense items are translated using monthly average exchange rates.

Foreign Currency Hedging Instruments — The Company enters into foreign exchange contracts to hedge its foreign currency risks. These contracts must be designated at inception as a hedge and measured for effectiveness both at inception and on an ongoing basis. Realized and unrealized gains or losses and premiums on foreign currency purchased option contracts that are designated and effective as hedges of probable anticipated, but not firmly committed, foreign currency transactions are deferred and recognized in income as a component of revenue, cost of sales and/or operating expenses in the same period as the hedged transaction. Forward contracts designated as hedges of probable anticipated or firmly committed transactions are accounted for on a mark-to-market basis, with realized and unrealized gains or losses recognized currently.

Revenue Recognition — Sales revenue is recognized at the date of shipment to customers. Provision is made currently for estimated product returns. Revenue from separately priced extended warranty programs is deferred and recognized over the extended warranty period, and the related extended warranty costs are recognized as incurred.

Warranty and Other Post-sales Support Programs — The Company provides currently for the estimated costs that may be incurred under its initial warranty and other post-sales support programs.

Advertising Costs — Advertising costs are charged to expense the first time the advertising takes place. There were no direct-response advertising costs reported as assets at February 2, 1997 and January 28, 1996. Advertising expenses for fiscal years 1997, 1996 and 1995 were $87 million, $83 million and $63 million, respectively.

Stock-Based Compensation — The Company adopted Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation" for fiscal year ended February 2, 1997. Upon adoption of SFAS 123, the Company continues to apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for its stock option and stock purchase plans. As a result, no compensation expense has been recognized for options granted with an exercise price equal to market value at the date of grant or in connection with the employee stock purchase plan. For stock options that have been issued at discounted prices, the Company accrues compensation expense over the vesting period for the difference between the exercise price and the fair market value on the measurement date.

Income Taxes — The provision for income taxes is based on income before income taxes as reported in the Consolidated Statement of Income. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial statement purposes and such amounts recognized for tax purposes.

Earnings Per Common Share — Earnings per common share is computed using the weighted average number of common shares and Common Stock equivalents (if dilutive) outstanding during each period. Common Stock equivalents include stock options and put and call option instruments.

Note 2 — Financial Instruments

The fair value of marketable securities, long-term debt and interest rate derivative instruments has been estimated by the Company based upon market quotes from brokers. The fair value of foreign currency forward contracts has been estimated using market quoted rates of foreign currencies at the applicable balance sheet date. The estimated fair value of foreign currency purchased option contracts is based on market quoted rates at the applicable balance sheet date and the Black-Scholes options pricing model. Considerable judgment is necessary in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange. Changes in assumptions could significantly affect the estimates.

Cash, accounts receivable, accounts payable and accrued and other liabilities are reflected in the financial statements at fair value because of the short-term maturity of these instruments.

Marketable Securities

The following table describes the fair value of the Company's holdings of marketable securities.

	Feb. 2, 1997	Jan. 28, 1996
	(in millions)	
Preferred stock	$ 172	$ 57
Mutual funds	182	75
Debt securities:		
State and municipal securities	415	198
U.S. corporate and bank debt	415	213
International corporate and bank debt	53	48
Total debt securities	883	459
Total marketable securities	$1,237	$591

At both February 2, 1997 and January 28, 1996, the cost of marketable securities approximates fair value. At February 2, 1997, debt securities with a carrying amount of $716 million mature within one year and the remaining debt securities mature within three years. The Company's gross realized gains and gross realized losses on the sale of marketable securities for both fiscal 1997 and fiscal 1996 were immaterial. The Company's gross realized gain and gross realized loss on the sale of marketable securities were $3 million and $24 million, respectively, for fiscal 1995.

Prior to June 1994, the Company structured derivative instruments in interest rate markets where it had foreign operations. Realized losses on investment derivatives recognized in income for fiscal 1995 was $24 million. The Company closed all investment derivatives during the second quarter of fiscal 1995, and since then has had no investment derivatives outstanding.

Foreign Currency Instruments

The Company uses foreign currency purchased option contracts and forward contracts in an effort to reduce its exposure to currency fluctuations involving probable anticipated, but not firmly committed, transactions and transactions with firm foreign currency commitments. The Company enters into foreign currency purchased options and, to a lesser extent, forward contracts to hedge a portion of its probable anticipated, but not firmly committed, transactions. These transactions include international sales by U.S. dollar functional currency entities, foreign currency denominated purchases of certain components and intercompany shipments to certain international subsidiaries. The risk of loss associated with purchased options is limited to premium amounts paid for the option contracts, which could be significant. Foreign currency purchased options generally expire in twelve months or less. At February 2, 1997, the Company held purchased option contracts with a notional amount of $1.2 billion, a carrying amount of $33 million and a combined net realized and unrealized deferred gain of $25.3 million. Additionally, at January 28, 1996, the Company held purchased option contracts with a notional amount of $714 million, a carrying amount of $38 million and a combined net realized and unrealized deferred loss of $5 million. The risk of loss associated with forward contracts is equal to the exchange rate differential from the time the contract is made until the time it is settled. Transactions with firm foreign currency commitments are generally hedged using foreign currency forward contracts for periods not exceeding three months. At February 2, 1997 and January 28, 1996, the Company held forward contracts with a notional amount of $207 million and $365 million, respectively. At both February 2, 1997 and January 28, 1996, forward contract carrying amounts of $12 million and $11 million, respectively, represented fair value.

Long-term Debt and Interest Rate Risk Management

During fiscal 1997, the Company repurchased $95 million principal amount of its outstanding $100 million 11% Senior Notes Due August 15, 2000 (the "Senior Notes"). As a result of the repurchase, the Company recorded an extraordinary loss of $12.9 million (net of tax benefit of $7.0 million). In connection with the Senior Notes, the Company entered into interest rate swap agreements expiring on August 15, 1998. At both February 2, 1997 and January 28, 1996, the Company had outstanding receive fixed/pay floating interest rate swaps with an aggregate notional amount of $100 million offset by receive floating/pay fixed interest rate swaps with an aggregate notional amount of $100 million. Related to the repurchase of Senior

Notes discussed above, $95 million of the notional amounts of both the receive fixed/pay floating interest rate swaps and the offsetting receive floating/pay fixed interest rate swaps were marked-to-market and included in the extraordinary loss. The weighted average interest rate on the Senior Notes, adjusted by the swaps, was 13.8%, 13.8% and 12.1% for fiscal years 1997, 1996 and 1995, respectively. The difference between the Company's carrying amounts and fair value on long-term debt and related interest rate swaps were immaterial at both February 2, 1997, and January 28, 1996.

Note 3 — Income Taxes

The provision for income taxes consists of the following:

	Fiscal Year Ended		
	Feb. 2, 1997	*Jan. 28, 1996*	*Jan. 29, 1995*
		(in millions)	
Current:			
Domestic	$252	$102	$52
Foreign	34	25	16
Prepaid	(70)	(16)	(4)
Provision for income taxes	$216	$111	$64

Income before income taxes included approximately $223 million, $176 million and $126 million related to foreign operations in fiscal 1997, 1996 and 1995, respectively.

The Company has not recorded a deferred income tax liability of approximately $97 million for additional taxes that would result from the distribution of certain earnings of its foreign subsidiaries, if they were repatriated. The Company currently intends to reinvest indefinitely these undistributed earnings of its foreign subsidiaries.

The Company's deferred tax asset is comprised of the following principal temporary differences:

	Fiscal Year Ended		
	Feb. 2, 1997	*Jan. 28, 1996*	*Jan. 29, 1995*
		(in millions)	
Depreciation	$ 6	$ 5	$ (5)
Provisions for doubtful accounts and returns	31	25	23
Inventory and warranty provisions	21	18	26
Deferred service contract revenue	107	53	25
Import promotion reserve	(8)	(5)	—
Other	(24)	(29)	9
Deferred tax asset	$133	$ 67	$78

The difference between the income tax provisions in the Consolidated Financial Statements and the tax expense computed at the U.S. federal statutory rate of 35% for each of the last three fiscal years is as follows:

	Fiscal Year Ended		
	Feb. 2, 1997	*Jan. 28, 1996*	*Jan. 29, 1995*
		(in millions)	
Tax provision at the U.S. federal statutory rate	$ 266	$ 134	$ 75
Research and development credit	(3)	(1)	(1)
Foreign income taxed at different rate	(46)	(23)	(16)
Net operating loss carryovers	1	1	2
Other	(2)	—	4
Provision for income taxes	$ 216	$ 111	$ 64
Effective tax rates	29.0%	29.0%	30.0%

Note 4 — Financing Arrangements

During fiscal 1997, the Company entered into a $100 million 364-day revolving credit facility and a $150 million 3-year revolving credit facility. Additionally during fiscal 1996, the Company entered into a transaction which gives the Company the ability to raise up to $150 million through a receivables securitization agreement. At both February 2, 1997 and January 28, 1996, these facilities were unused.

Note 5 — Preferred Stock

The Company has the authority to issue 5 million shares of preferred stock, par value $.01 per share.

Series A Convertible Preferred Stock

During fiscal 1996, the Company offered to pay a cash premium of $8.25 for each outstanding share of Series A Convertible Preferred Stock that was converted to Common Stock. Holders of 1.2 million shares of Series A Convertible Preferred Stock elected to convert and, as a result, received an aggregate of approximately 20 million shares of Common Stock and $10 million in cash during fiscal 1996. During fiscal 1997, the remaining 60,000 shares of Series A

Convertible Preferred Stock were converted into Common Stock in accordance with their terms, resulting in the issuance of an additional 1.0 million shares of Common Stock.

Series A Junior Participating Preferred Stock
In conjunction with the distribution of Preferred Share Purchase Rights (see Note 8 — Preferred Share Purchase Rights), the Company's Board of Directors designated 200,000 shares of preferred stock as Series A Junior Participating Preferred Stock and reserved such shares for issuance upon exercise of the Preferred Share Purchase Rights. At February 2, 1997 and January 28, 1996, no shares of Series A Junior Participating Preferred Stock were issued or outstanding.

Note 6 — Common Stock

Stock Split
On November 12, 1996, the Company's Board of Directors declared a two-for-one Common Stock split, payable in the form of a 100% stock dividend to stockholders of record as of November 25, 1996. The distribution of such dividend occurred on December 6, 1996. All share and per share information has been retroactively restated in the Consolidated Financial Statements to reflect the stock split.

Stock Repurchase Program
During fiscal 1997, the Board of Directors authorized a Common Stock repurchase program under which the Company may purchase up to 32 million shares of its Common Stock in open market or private transactions. Subsequent to February 2, 1997, the Company's Board of Directors authorized the repurchase of an additional 18 million shares of Common Stock. During fiscal 1997, the Company repurchased 20 million shares of Common Stock for an aggregate cost of $503 million.

The Company utilizes put and call option instruments to facilitate its repurchase of Common Stock. At February 2, 1997, the Company held put and call option arrangements that entitle the Company to purchase 8.9 million additional shares of Common Stock at an average cost of $35 per share. Additionally, the Company has sold put options covering 8.4 million shares at an average exercise price of $30. The Company's potential repurchase obligation under put options with net cash settlement or physical settlement terms, which totaled $279 million at February 2, 1997, has been reclassified from stockholders' equity to put options. The remaining options may also be settled in additional shares of Common Stock. Each option is exercisable only at expiration, and the various expiration dates range from March 1997 to September 1997. The put and call option instruments did not have a material dilutive effect on earnings per common share for fiscal 1997.

Note 7 — Employee Benefit Plans

Stock Option and Employee Stock Purchase Plans
On June 22, 1994, the Company's stockholders approved the Dell Computer Corporation Incentive Plan (the "Incentive Plan"), which effectively replaced prior plans. The Incentive Plan, which is administered by the Compensation Committee of the Board of Directors, provides for the granting of incentive awards in the form of stock options, stock appreciation rights ("SARs"), restricted stock, stock and cash to directors, executive officers and key employees of the Company and its subsidiaries, and certain other persons who provide consulting or advisory services to the Company. Awards under the Incentive Plan must be granted within ten years of the plan adoption date. Options granted may be either incentive stock options within the meaning of Section 422 of the Internal Revenue Code or nonqualified options. The right to purchase shares under the existing stock option agreements typically vest over a five-year period beginning on the option's date of grant. Stock options must be exercised within ten years from date of grant. Stock options are generally issued at fair market value. Under the Incentive Plan, each nonemployee director of the Company automatically receives nonqualified stock options annually.

The following table summarizes stock option activity under the plans for each of the three fiscal years ended February 2, 1997:

	Fiscal Year Ended					
	Feb. 2, 1997		Jan. 28, 1996		Jan. 29, 1995	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
	(share data in millions)					
Outstanding at beginning of year	23.4	$ 8.38	22.4	$ 4.51	22.5	$3.49
Granted	10.7	$26.29	8.0	$15.63	8.7	$6.05
Canceled	(1.7)	$ 9.36	(2.0)	$ 4.07	(3.3)	$3.57
Exercised	(4.2)	$ 5.97	(5.0)	$ 4.17	(5.5)	$3.46
Outstanding at end of year	28.2	$15.53	23.4	$ 8.38	22.4	$4.51
Exercisable at year-end	4.7	$ 7.22	4.6	$ 5.19	5.7	$4.27

The following is additional information relating to options outstanding as of February 2, 1997:

	Options Outstanding			Options Exercisable	
Exercise Price Range	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Life (Years)	Number of Shares	Weighted Average Exercise Price
	(share data in millions)				
$0.0025	1.7	$0.0025	5.9	—	$0.0025
$ 0.01 - $ 4.99	2.2	$ 3.71	4.4	1.2	$ 3.14
$ 5.00 - $ 8.99	6.8	$ 6.27	6.9	2.5	$ 6.21
$ 9.00 - $15.99	7.1	$ 14.13	8.6	0.8	$ 14.09
$16.00 - $38.99	8.4	$ 23.52	9.3	0.2	$ 20.71
$39.00 - $66.00	2.0	$ 45.09	9.8	—	$ —
	28.2			4.7	

The Company also has an employee stock purchase plan that qualifies under Section 423 of the Internal Revenue Code and permits substantially all employees to purchase shares of Common Stock. Participating employees may purchase Common Stock through payroll deductions at the end of each participation period at a purchase price equal to 85% of the lower of the fair market value of the Common Stock at the beginning or the end of the participation period. Common Stock reserved for future employee purchases under the plan aggregated 3.8 million shares at February 2, 1997, and 4.7 million shares at January 28, 1996. Shares issued under this plan were 0.8 million shares in fiscal 1997, 0.8 million shares in fiscal 1996 and 1.1 million shares in fiscal 1995.

During fiscal 1997, 1996 and 1995, the Company granted 0.6 million shares, 1.4 million shares and 0.6 million shares, respectively, of restricted stock. For substantially all restricted stock grants, at the date of grant, the recipient has all rights of a stockholder, subject to certain restrictions on transferability and a risk of forfeiture. Restricted shares typically vest over a seven-year period beginning on the date of grant; restrictions may not extend more than ten years from date of grant. The Company records unearned compensation (included in Stockholders' Equity) equal to the market value of the restricted shares on the date of grant and charges the unearned compensation to expense over the vesting period.

There were 7.2 million, 17.1 million and 9.6 million shares of Common Stock available for future grants under the Incentive Plan at February 2, 1997, January 28, 1996 and January 29, 1995, respectively.

The weighted average fair value of stock options at date of grant was $14.94 and $8.90 per option for options granted during fiscal 1997 and fiscal 1996, respectively. Additionally, the weighted average fair value of the purchase rights under the employee stock purchase plan granted in fiscal 1997 and fiscal 1996 was $8.15 and $4.04 per right, respectively. The weighted average fair value of options was determined based on the Black-Scholes model, utilizing the following weighted average assumptions:

	Fiscal Year Ended	
	Feb. 2, 1997	Jan. 28, 1996
Expected term:		
Stock options	5 years	5 years
Employee stock purchase plan	6 months	6 months
Interest rate	6.40%	6.20%
Volatility	56.54%	57.36%
Dividends	0%	0%

If the Company had accounted for its stock option and stock purchase plans by recording compensation expense based on the fair value at grant date for such awards, stock-based compensation costs would have reduced pretax income by $22.0 million ($15.6 million, net of taxes) and $7.8 million ($5.5 million, net of taxes) in fiscal 1997 and fiscal 1996, respectively, if the fair values of the options had been recognized as compensation expense on a straight-line basis over the vesting period. The pro-forma effect on earnings per common share would have been a reduction of $0.08 and $0.03 for fiscal 1997 and fiscal 1996, respectively.

401(k) Plan

The Company has a defined contribution retirement plan that complies with Section 401(k) of the Internal Revenue Code. Substantially all employees in the U.S. are eligible to participate in the plan. The Company matches 100% of each participant's voluntary contributions, subject to a maximum Company contribution of 3% of the participant's compensation. The Company accrues for its estimated matching contributions each period. During each of fiscal 1997 and fiscal 1996, the Company made discretionary contributions for every eligible employee, regardless of whether the employee was a plan participant, equal to 2% of the employee's actual earnings during calendar year 1996 and 1995, respectively. The amounts expensed for the Company's matching and other contributions during fiscal years 1997, 1996 and 1995 were $18 million, $8 million and $4 million, respectively.

Note 8 — Preferred Share Purchase Rights

On November 29, 1995, the Company's Board of Directors declared a dividend of one Preferred Share Purchase Right (a "Right") for each outstanding share of Common Stock. The distribution of the Rights was made on December 13, 1995, to the stockholders of record on that date. Each Right entitles the holder to purchase one two-thousandths of a share of Series A Junior Participating Preferred Stock at an exercise price of $225.

If a person or group acquires 15% or more of the outstanding Common Stock, each Right will entitle the holder (other than such person or any member of such group) to purchase, at the Right's then current exercise price, the number of shares of Common Stock having a market value of twice the exercise price of the Right. If exercisable, the Rights contain provisions relating to merger or other business combinations. In certain circumstances, the Board of Directors may, at its option, exchange part or all of the Rights (other than Rights held by the acquiring person or group) for shares of Common Stock at an exchange rate of one share of Common Stock for each Right.

The Company will be entitled to redeem the Rights at $.001 per Right at any time before a 15% or greater position has been acquired by any person or group. Additionally, the Company may lower the 15% threshold to not less than the greater of (a) any percentage greater than the largest percentage of Common Stock known by the Company to be owned by any person (other than Michael S. Dell) or (b) 10%. The Rights expire on November 29, 2005.

Neither the ownership nor the further acquisition of Common Stock by Michael S. Dell will cause the Rights to become exercisable or nonredeemable or will trigger the other features of the Rights.

Note 9 — Commitments, Contingencies and Certain Concentrations

Lease Commitments

The Company leases property and equipment, manufacturing facilities and office space under non-cancelable leases. Certain leases obligate the Company to pay taxes, maintenance and repair costs. Future minimum payments under these leases at February 2, 1997, are as follows: 1998, $24 million; 1999, $20 million; 2000, $17 million; 2001, $13 million; 2002, $9 million; and thereafter $27 million. Rental expense recorded under all operating leases were $33 million, $22 million and $20 million for the fiscal years ended 1997, 1996 and 1995, respectively.

Royalty Commitments

The Company is subject to certain patent royalty agreements that require fixed cash payments over approximately the next two years. The Company is also subject to ongoing software royalty agreements for periods exceeding twelve months which require cash payments.

Legal Matters

The Company is subject to legal proceedings and claims which arise in the ordinary course of business. The Company's management does not expect that the results in these legal proceedings will have a material adverse effect on the Company's financial condition or results of operations.

In May 1995, the Company was named, along with two other computer manufacturers and one computer monitor vendor, in a class action complaint filed in the California Superior Court for Marin County. Subsequently, several other similar actions were filed in California Superior Courts for other counties, naming a total of 48 defendants, including the Company. The complaints in all of these cases allege that each of the defendants has engaged in false or misleading advertising with regard to the size of computer monitor screens. The plaintiffs seek restitution in the form of refunds or product exchange, damages, punitive damages and attorneys' fees. The cases have been consolidated before a single judge. In July 1996, that judge dismissed virtually all of the plaintiffs' claims, ruling that a previously concluded investigation by the California Attorney General's office superseded private causes of action under California law. Some of the same plaintiffs, with others, have filed a similar action in New Jersey. There can be no assurance that an adverse determination would not have a material adverse effect on the Company's financial condition or results of operations.

In June 1995, the Company was named in a class action complaint filed in State District Court in Travis County, Texas, alleging that the Company included "used parts" in its "new" computer systems and failed to adequately inform its customers and prospective customers of that practice. According to the complaint, these facts constitute fraud, negligent misrepresentation, breach of contract and breach of warranty. The plaintiffs seek refund of the purchase price for computer systems purchased from the Company, damages in an unspecified amount, injunctive relief, interest and attorneys' fees. The Company plans to vigorously contest the allegations of the complaint. To date, no discovery has occurred and it is too early for the Company to adequately evaluate the likelihood of the plaintiffs' prevailing on their claims. There can be no assurance that an adverse determination in this litigation would not have a material adverse effect on the Company's financial condition or results of operations.

Certain Concentrations

All of the Company's foreign exchange and interest rate derivative instruments involve elements of market and credit risk in excess of the amounts recognized in the financial statements. The counterparties to financial instruments consist of a number of major financial institutions. In addition to limiting the amount of agreements and contracts it enters into with any one party, the Company monitors its positions with and the credit quality of the counterparties to these financial instruments. The Company does not anticipate non-performance by any of the counterparties.

The Company's marketable securities are placed with high quality financial institutions and other companies and currently invests primarily in equity securities and debt instruments that have maturities of less than three years. Management believes no significant concentration of credit risk for marketable securities exists for the Company.

The Company purchases a number of components from single sources. In some cases, alternative sources of supply are not available. In other cases, the Company may establish a working relationship with a single source, even when multiple suppliers are available, if the Company believes it is advantageous to do so due to performance, quality, support, delivery, capacity or price considerations. If the supply of a critical single-source material or component were delayed or curtailed, the Company's ability to ship the related product in desired quantities and in a timely manner could be adversely affected. Even where alternative sources of supply are available, qualification of the alternative suppliers and establishment of reliable supplies could result in delays and a possible loss of sales, which could adversely affect operating results.

Note 10 — Geographic Area Information

The Company operates in one principal business segment across geographically diverse markets. The Americas region includes the United States, Canada and Latin America. Substantially all of Americas operating results and identifiable assets are in the United States. The Europe region includes the European countries as well as some countries in the Middle East and Africa. Transfers between geographic areas are recorded using internal transfer prices set by the Company.

	Fiscal Year 1997				
	Americas	Europe	Asia-Pacific and Japan	Eliminations	Consolidated
	(in millions)				
Sales to unaffiliated customers	$5,279	$2,004	$476	$ —	$7,759
Transfers between geographic areas	50	32	—	(82)	—
Total sales	$5,329	$2,036	$476	$(82)	$7,759
Operating income (loss)	$ 609	$ 193	$ (6)	$ —	$ 796
Corporate expenses, net					(82)
Total operating income					$ 714
Identifiable assets	$ 903	$ 390	$125	$ —	$1,418
General corporate assets					1,575
Total assets					$2,993

	Fiscal Year 1996				
	Americas	Europe	Asia-Pacific and Japan	Eliminations	Consolidated
	(in millions)				
Sales to unaffiliated customers	$3,474	$1,478	$344	$ —	$5,296
Transfers between geographic areas	66	192	—	(258)	—
Total sales	$3,540	$1,670	$344	$(258)	$5,296
Operating income (loss)	$ 285	$ 171	$ (21)	$ —	$ 435
Corporate expenses, net					(58)
Total operating income					$ 377
Identifiable assets	$ 867	$ 409	$123	$ —	$1,399
General corporate assets					749
Total assets					$2,148

	Fiscal Year 1995				
	Americas	Europe	Asia-Pacific and Japan	Eliminations	Consolidated
	(in millions)				
Sales to unaffiliated customers	$2,400	$ 953	$122	$ —	$3,475
Transfers between geographic areas	35	129	—	(164)	—
Total sales	$2,435	$1,082	$122	$(164)	$3,475
Operating income (loss)	$ 174	$ 123	$ (2)	$ —	$ 295
Corporate expenses, net					(46)
Total operating income					$ 249
Identifiable assets	$ 638	$ 286	$ 43	$ —	$ 967
General corporate assets					627
Total assets					$1,594

Note 11 — Supplemental Consolidated Financial Information

	Feb. 2, 1997	Jan. 28, 1996
	(in millions)	
Supplemental Consolidated Statement of Financial Position Information		
Accounts receivable:		
Gross accounts receivable	$ 934	$ 755
Allowance for doubtful accounts	(31)	(29)
	$ 903	$ 726
Inventories:		
Production materials	$ 223	$ 390
Work-in-process and finished goods	28	39
	$ 251	$ 429
Property, plant and equipment:		
Land and buildings	$ 133	$ 92
Computer equipment	104	92
Office furniture and fixtures	32	26
Machinery and other equipment	59	45
Leasehold improvements	46	37
Total property, plant and equipment	374	292
Accumulated depreciation and amortization	(139)	(113)
	$ 235	$ 179
Accrued and other liabilities:		
Accrued compensation	$ 113	$ 52
Accrued warranty costs	111	78
Taxes other than income taxes	74	76
Deferred revenue on warranty contracts	126	67
Book overdrafts	27	59
Other	167	141
	$ 618	$ 473

	Fiscal Year Ended		
	Feb. 2, 1997	Jan. 28, 1996	Jan. 29, 1995
	(in millions)		
Supplemental Consolidated Statement of Operations Information			
Research, development and engineering expenses:			
Research and development expenses	$ 88	$ 62	$ 39
Engineering expenses	38	33	26
	$126	$ 95	$ 65
Financing and other income (expense), net:			
Interest expense	$ (7)	$(15)	$(12)
Investment and other income (loss), net	40	21	(24)
	$ 33	$ 6	$(36)

	Fiscal Year Ended		
	Feb. 2, 1997	Jan. 28, 1996	Jan. 29, 1995
	(in millions)		
Supplemental Consolidated Statement of Cash Flows Information			
Changes in operating working capital accounts:			
Accounts receivable, net	$(200)	$(196)	$(125)
Inventories	177	(138)	(72)
Accounts payable	581	59	129
Accrued and other liabilities	141	126	80
Other, net	(40)	(46)	(23)
	$ 659	$(195)	$ (11)
Supplemental cash flow information:			
Income taxes paid	$ 178	$ 117	$ 57
Interest paid	$ 12	$ 17	$ 10

Note 12 — Quarterly Results (unaudited)

The Company believes that the following information reflects all normal recurring adjustments necessary for a fair presentation of the information for the periods presented. The following tables contain selected unaudited Consolidated Statement of Income and stock price data for each quarter of fiscal 1997 and 1996. The operating results for any quarter are not necessarily indicative of results for any future period.

	Fiscal Year 1997			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	(in millions, except per share data)			
Net sales	$2,412	$2,019	$1,690	$1,638
Gross margin	$ 524	$ 450	$ 373	$ 319
Income before extraordinary loss	$ 188	$ 149	$ 112	$ 82
Net income	$ 188	$ 145	$ 103	$ 82
Income before extraordinary loss per common share[(a)(b)]:				
Primary	$ 1.01	$ .78	$ .58	$ .42
Fully diluted	$ 1.00	$ .78	$ .57	$ .42
Weighted average shares outstanding[(a)]:				
Primary	185.8	191.0	194.7	194.8
Fully diluted	187.0	192.0	196.2	196.8
Stock sales prices per share[(a)]:				
High	$72 3/8	$44 3/8	$28 5/8	$23 3/8
Low	$37 13/16	$26 1/16	$20 3/16	$13 1/4

	Fiscal Year 1996			
	4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
	(in millions, except per share data)			
Net sales	$1,539	$1,415	$1,206	$1,136
Gross margin	$ 278	$ 290	$ 263	$ 236
Income before extraordinary loss	$ 70	$ 75	$ 65	$ 62
Net income	$ 70	$ 75	$ 65	$ 62
Income before extraordinary loss per common share[(a)]:				
Primary	$ .35	$ .38	$ .33	$ .28
Fully diluted	$ .35	$ .37	$ .33	$ .26
Weighted average shares outstanding[(a)]:				
Primary	198.7	200.1	196.5	181.0
Fully diluted	199.6	202.0	198.4	195.1
Stock sales prices per share[(a)]:				
High	$24 11/16	$23 29/32	$17 17/32	$13 23/32
Low	$11 1/2	$15 1/2	$12 1/8	$ 9 7/8

(a) Earnings per common share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly per common share information may not equal the annual earnings per common share. All share, per share and stock price information has been retroactively restated to reflect the two-for-one split of the Common Stock in December 1996.

(b) Excludes extraordinary loss of $0.02 and $0.05 per common share for the third and second quarter, respectively, of fiscal 1997.

Report of Independent Accountants

To the Board of Directors and Stockholders of
Dell Computer Corporation

In our opinion, the accompanying consolidated statement of financial position and the related consolidated statements of income, of cash flows and of stockholders' equity present fairly, in all material respects, the financial position of Dell Computer Corporation and its subsidiaries at February 2, 1997 and January 28, 1996, and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 2, 1997, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

Austin, Texas
February 25, 1997

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Board of Directors

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Chairman of the Board and Chief Executive Officer
Dell Computer Corporation

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American Airlines, Inc.
Executive Vice President
AMR Corporation (1,2,3)

Paul O. Hirschbiel, Jr.
Managing Director
Cornerstone Equity Investors, L.L.C. (2,4)

Michael H. Jordan
Chairman and Chief Executive Officer
Westinghouse Electric Corporation (1,4)

Dr. George Kozmetsky
Executive Associate for Economic Affairs
The University of Texas System (3)

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Of Counsel
Hughes & Luce, L.L.P. (2)

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MATCH – Market Access for Technology Services GmbH (2,3)

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Michael A. Miles
Former Chairman and Chief Executive Officer
Philip Morris Companies, Inc. (1,4)

Committees of the Board
(1) Nominating Committee
(2) Finance Committee
(3) Audit Committee
(4) Compensation Committee

Dell Computer Corporation
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Chairman of the Board and Chief Executive Officer

Morton L. Topfer
Vice Chairman

Hiroshi Fukino
Vice President, General Manager – Japan

Thomas B. Green
General Counsel and Secretary

Jerome N. Gregoire
Vice President and Chief Information Officer

Eric F. Harslem
Senior Vice President, Product and Technology Strategy

Phillip E. Kelly
Vice President, General Manager – Asia Pacific

Michael D. Lambert
Senior Vice President, Server Group

John K. Medica
Vice President, Chief Operating Officer – Japan

D. Scott Mercer
Senior Vice President, Desktop Business Unit

Thomas J. Meredith
Senior Vice President and Chief Financial Officer

Martyn R. Ratcliffe
Senior Vice President, General Manager – Europe

Kevin B. Rollins
Senior Vice President, General Manager – Americas

Julie A. Sackett
Vice President, Human Resources

James M. Schneider
Vice President, Finance and Corporate Controller

Alex C. Smith
Vice President, Treasurer

Independent Accountants

Price Waterhouse LLP
Austin, Texas

Common Stock

Dell's common stock is traded on The Nasdaq National Market under the symbol DELL. For information on market prices of Dell's common stock, see Note 12 of Consolidated Financial Statements. As of April 1 there were approximately 3, 660 holders of record of the company's common stock.

Company Information

If you have questions about Dell's operations, financial results or historical performance, or if you wish to receive previous annual reports or other company information, please access the Dell World Wide Web server at www.dell.com, or contact:

Investor Relations
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(512) 728-8315

Copies of the Dell annual report on Form 10-K (without exhibits) for the fiscal year ended February 2, 1997, are available without charge.

Stock Information

If you have questions about stock certificates, change of address, consolidation of accounts, transfer of ownership or other stock matters, please contact Dell's stock transfer agent:

American Stock Transfer and Trust Company
40 Wall Street
New York, New York 10005
(800) 937-5449
New York residents call (718) 921-8200

Dividend Information

The company has never paid cash dividends on its common stock. The company intends to retain earnings for use in its business and, therefore, does not anticipate paying any cash dividends on common stock for at least the next twelve months.

Annual Meeting

The annual meeting of stockholders of Dell Computer Corporation will be held at 9:00 a.m. on Friday, July 18, 1997, at the Four Seasons Hotel, 98 San Jacinto Blvd., Austin, Texas.

Dell Computer Corporation is proud to be an Equal Opportunity/ Affirmative Action Employer.

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Worldwide Reach, Local Commitment

Dell believes it is important to make an impact in the community wherever we have operations around the world. We deliver on this commitment through corporate philanthropy, volunteer efforts and the benefits our business provides to local economies.

Through the Dell Foundation — the body that oversees our corporate philanthropic efforts — and through the dedication of our employees, we have been able to deliver some powerful results. During the past year, the Dell Foundation continued working in support of education, health, human service, arts and cultural organizations, and increased the effect of Dell's donations in the community. During the year, Dell donated hundreds of thousands of dollars to non-profit organizations, including children's museum projects in the U.S. and U.K.

The Foundation also accelerated efforts to encourage employee involvement in volunteer opportunities. Numerous organizations including the United Way, Adopt-a-School and Junior Achievement benefited from substantial corporate donations as well as volunteer assistance. For example, Dell and its employees earned a 1996 "Star" award for work on behalf of the United Way. Dell employees contributed thousands of hours to volunteer projects during the year.

Our growing workforce and our business also bring a benefit to our communities by reinforcing their economic health. For example, our new manufacturing facility in Austin, Texas, will add 1,000 manufacturing jobs and an estimated $35 million to Dell's local payroll when it is fully staffed. Dell employs more than 11,000 people around the world, and independent researchers estimate that for every job Dell creates, more than two jobs are created in the surrounding area.

We will continue working to ensure a bright future for Dell and for the communities in which we live.

Improving the Computing Environment

Dell made significant strides during fiscal 1997 to strengthen our environmental programs. For instance, Earth Day 1996 marked the introduction of our fully recyclable PC case, called "OptiFrame." The OptiFrame case is constructed with sturdy, recyclable plastics and is designed for easy disassembly, reducing the cost to customers — and the impact on the environment — when the system is eventually replaced by newer technology. With increasingly strict regulations regarding PC disposal and the continuing cycle of technology replacement, recycling costs are a growing concern for computer buyers. OptiFrame has been received enthusiastically by customers, not only for its recyclability, but because we were able to offer systems including the new case without adding to the computer's cost.

We continued to design our products to meet key national and international environmental guidelines, such as the German Blue Angel and Swedish TCO 95 standards — both highly regarded, voluntary certifications that many expect will form the basis of future European Union environmental standards for PCs. In addition, we continued to design our volume commercial and government systems to comply with the U.S. Environmental Protection Agency (EPA) Energy Star guidelines, created to designate energy-efficient products.

Dell also became a member of the "Climate Wise" program, a national voluntary coalition sponsored by the U.S. EPA and the Department of Energy. In joining Climate Wise, we formalized our commitment to achieve cost-effective energy savings, better manage our resources and reduce waste. Our membership in Climate Wise will help us refine and build on strong, existing internal programs to promote recycling and efficient use of energy.

Through programs such as these and the efforts of our employees, Dell continues its commitment to sharing the responsibility of protecting the environment with our customers.

Statements in this report that relate to future results and events are based on the company's current expectations. Actual results in future periods may differ materially from those currently expected or desired because of a number of risks and uncertainties, including the level of demand for personal computers; the intensity of competition; currency fluctuations; the cost of certain key components; and the company's ability to effectively manage product transitions and material availability, to minimize excess and obsolete inventory and to continue to expand and improve its infrastructure (including personnel and systems). Additional discussion of these and other factors affecting the company's business and prospects is contained in the company's periodic filings with the Securities and Exchange Commission.

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