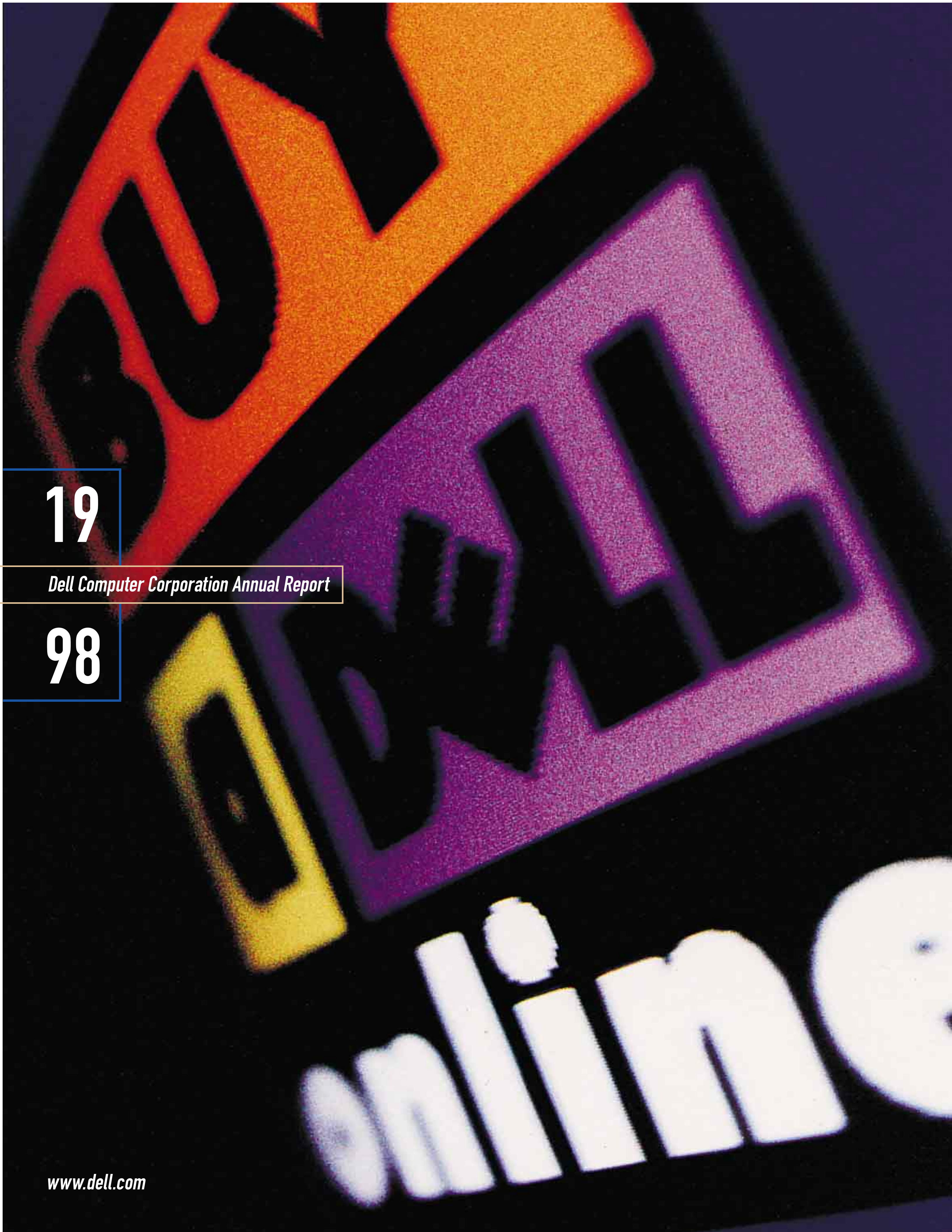
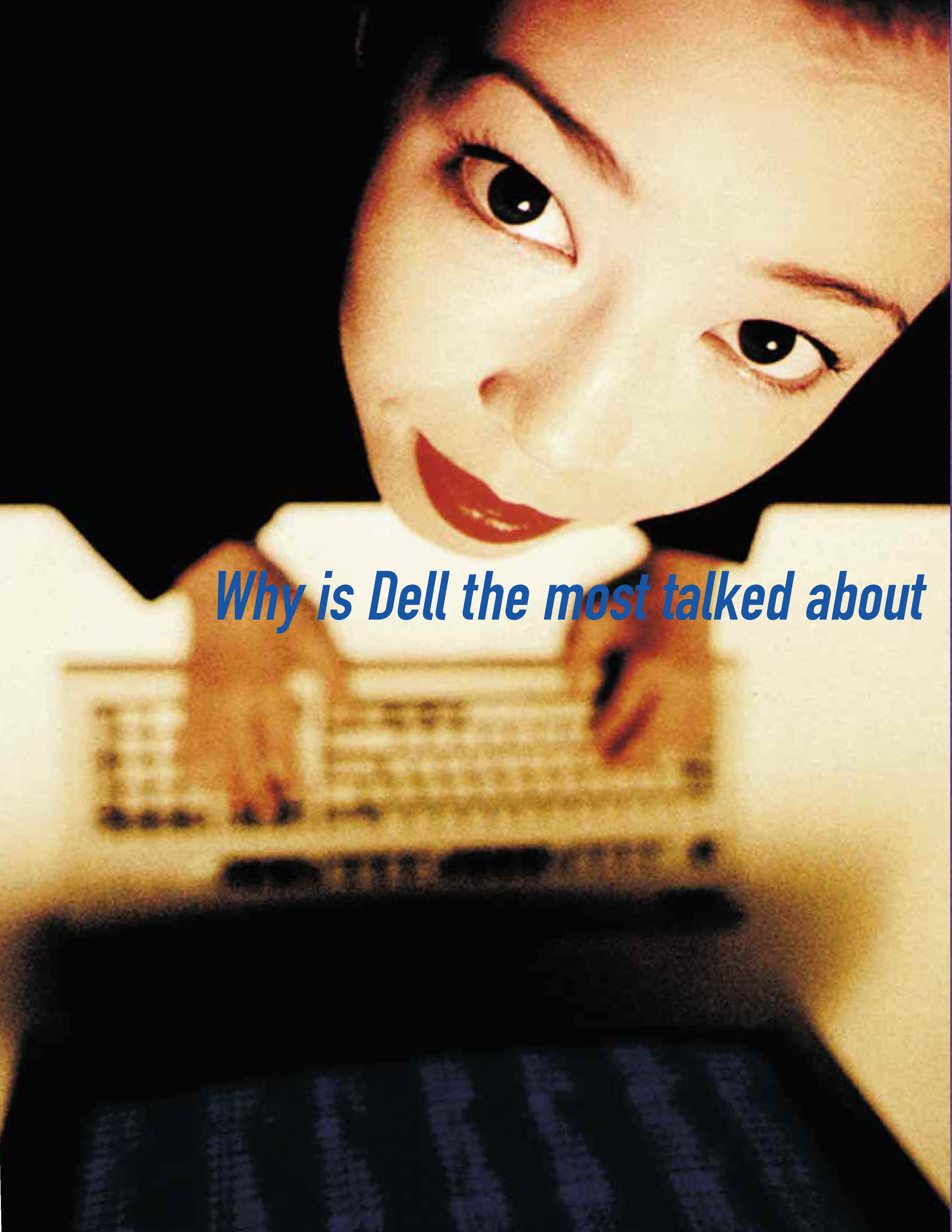


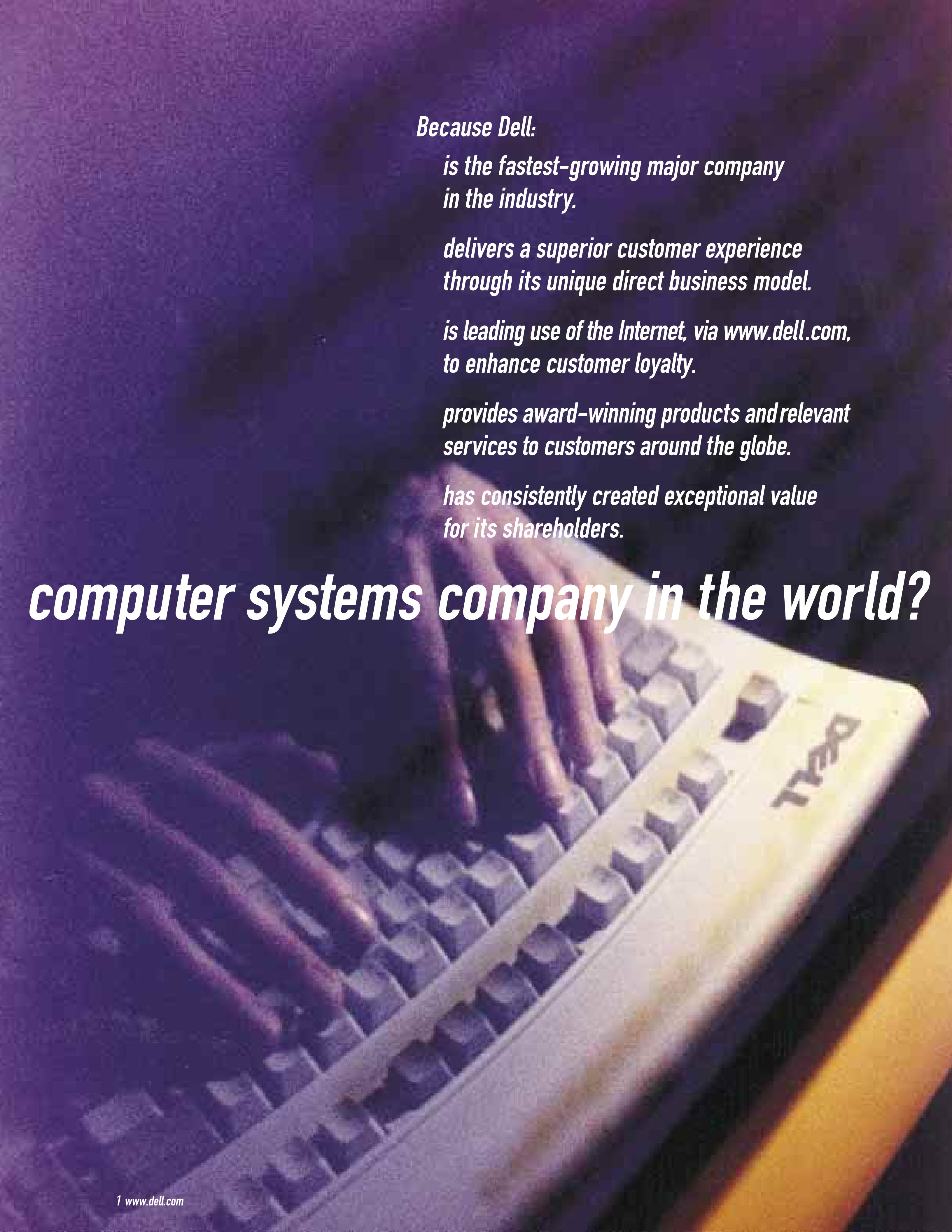
19

Dell Computer Corporation Annual Report

98

www.dell.com


Why is Dell the most talked about



Because Dell:

is the fastest-growing major company in the industry.

delivers a superior customer experience through its unique direct business model.

is leading use of the Internet, via www.dell.com, to enhance customer loyalty.

provides award-winning products and relevant services to customers around the globe.

has consistently created exceptional value for its shareholders.

computer systems company in the world?

Dell Computer Corporation last year was the third-largest and fastest-growing among all major computer systems companies worldwide. Headquartered in Round Rock, Texas, near Austin, the company was founded in 1984 when Michael Dell pioneered the process of selling custom-built computers directly to customers. Today Dell is the world's leading direct computer systems company, with more than 16,000 employees in 33 countries and customers in more than 170 countries. Businesses of all sizes, government agencies, educational institutions and individual consumers order Dell's award-winning desktop and notebook computers, workstations and network servers by the phone or via the Internet, at www.dell.com. Dell computer systems are manufactured one at a time, as ordered, at facilities in Austin, Texas; Limerick, Ireland; and Penang, Malaysia. Dell provides an extensive range of value-added services, including system installation and management, and technology-transition planning and execution.

To our shareholders, customers,

Selected Financial Data

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."

	Fiscal Year Ended				
(in millions, except per-share data)	February 1, 1998	February 2, 1997	January 28, 1996	January 29, 1995	January 30, 1994
Results of Operations Data:					
Net revenue	$ 12,327	$ 7,759	$ 5,296	$ 3,475	$ 2,873
Gross margin	$ 2,722	$ 1,666	$ 1,067	$ 738	$ 433
Operating income (loss)	$ 1,316	$ 714	$ 377	$ 249	$ (39)
Income (loss) before extraordinary loss	$ 944	$ 531	$ 272	$ 149	$ (36)
Net income (loss)	$ 944	$ 518	$ 272	$ 149	$ (36)
Income (loss) before extraordinary loss per common share (a)(b):					
Basic	$ 1.44	$ 0.75	$ 0.36	$ 0.23	$ (0.07)
Diluted	$ 1.28	$ 0.68	$ 0.33	$ 0.19	$ (0.07)
Weighted average shares (a):					
Basic	658	710	716	618	597
Diluted	738	782	790	750	597
Balance Sheet Data:					
Working capital	$ 1,215	$ 1,089	$ 1,018	$ 718	$ 510
Total assets	$ 4,268	$ 2,993	$ 2,148	$ 1,594	$ 1,140
Long-term debt	$ 17	$ 18	$ 113	$ 113	$ 100
Total stockholders' equity	$ 1,293	$ 806	$ 973	$ 652	$ 471

(a) The Company adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share", in the fiscal year ended February 1, 1998. All historical earnings per share data have been restated to conform to this presentation. Additionally, all share and per share information has been retroactively restated to reflect the two-for-one splits of the common stock in March 1998 and July 1997. See Note 1 and Note 7 of Notes to Consolidated Financial Statements.

(b) Excludes extraordinary loss of $0.02 basic per common share and $0.02 diluted per common share for fiscal 1997. See Note 2 of Notes to Consolidated Financial Statements.

From the Office of the CEO

Kevin B. Rollins
Vice Chairman

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

Morton L. Topfer
Vice Chairman

suppliers and employees:

Crisp execution of our unique, customer-focused business model in fiscal 1998 enabled Dell Computer Corporation to continue to set operational and financial standards for the global computer systems industry. The substantial benefits of our direct model accrued to customers selecting our award-winning products and services, and to others who hold stakes in Dell.

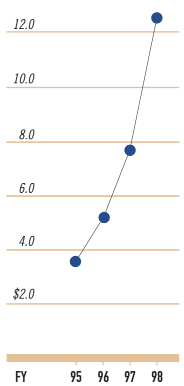
Again last year, we led our industry in performance against all three of our balanced priorities: growth, profitability and liquidity.

Net revenue for the fiscal year ended Feb. 1 increased at four times the industry rate, rising 59 percent versus the prior year to $12.3 billion. By the end of fiscal 1998, Dell had reported record revenues for 37 of the last 39 quarters. We became the second-largest manufacturer and marketer of personal computers in the United States and were No. 3 worldwide.

Net income rose 82 percent, and diluted earnings per share were up 94 percent, to $1.28. Our return on invested capital, or ROIC—the financial measure we believe best indicates the creation of shareholder value—was 186 percent for the year, leading the computer systems industry.

We also continued to set industry standards for inventory management and efficient use of assets. We ended the year with seven days of supply in inventory, versus 80 days or more combined for indirect companies and their resellers.

Dell's stock rose more than 200 percent—



Net Revenue (in billions)

Dell's efficiencies also contributed to cash flows from operations totaling $1.6 billion. We used that cash, in part, to repurchase 69 million shares of Dell's common stock. By fiscal year-end, we had acquired 150 million shares since the company's stock-repurchase plan was begun in February 1996.

Finally, our stock price rose more than 200 percent during calendar-year 1997, the largest share-price gain within the Standard & Poor's 500 and Nasdaq 100 rosters, and second-best on the Dow Jones World Stock Index. At fiscal year-end, the value of our stock had risen by nearly 140 percent annually, on average, over the previous five years—and was worth more than 140 times its price at the June 1988 initial public offering. We have carried out 2-for-1 splits of our common stock twice since the last annual report.

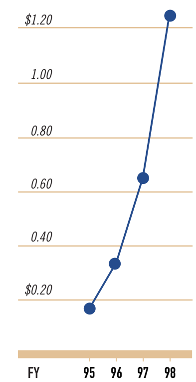
Our business last year was exceptionally strong around the world. Net revenue in the Americas region was up 62 percent, more than three times overall industry growth. Revenue from Europe, the Middle East and Africa increased 48 percent, four times the industry rate. In Asia-Pacific and Japan, where many computer manufacturers suffered because of a pronounced economic crisis, Dell's net revenue rose 77 percent.

Any negative effect on Dell from conditions in Asia was more than offset by associated cost reductions for components purchased from suppliers in the region. We think that the economic situation in Asia actually contributed to our substantial growth there by highlighting even more sharply for our customers the greater value offered by Dell's direct model.

Our rapid growth in all customer segments and product categories was attributable, in part, to our continued investment in research and development. During fiscal 1998, we introduced more robust PowerEdge network servers, our new workstation products and our Inspiron line of notebook computers designed for customers who require high-performance portable systems at attractive prices.

the largest share-price gain in the S&P 500 and Nasdaq 100.

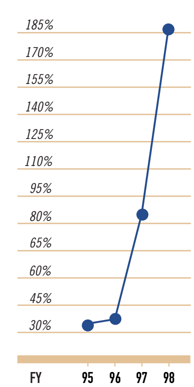
Revenues from Dell servers and workstations—commonly known as enterprise products—were nearly four times greater than the previous year. Dell's share of the global server business more than doubled as the company rose to the No. 4 supplier of such products. We now offer work-group, departmental and enterprise server products and services based on industry-standard operating systems such as Microsoft Corp.'s Windows NT, Novell Inc.'s Netware and SCO's Unix. Later this year, we plan to introduce storage systems targeted for high-end enterprise and data-center applications, products based on proven, fibre-channel technology.



Diluted Earnings Per Share

Our strong results notwithstanding, we believe that what distinguished fiscal 1998 from previous years was how Dell and its success influenced the strategic direction of the computer industry. Several of our competitors announced initiatives intended to emulate characteristics of how we purchase materials for, build-to-order and ship computer systems. At the end of the year, though, the competitive environment—including Dell's fundamental advantages in efficiency and pricing—remained essentially unchanged for three main reasons.

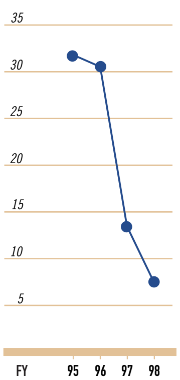
First, efficient procurement, manufacturing and distribution represent important elements of our model, but not its entirety. Unlike most other computer systems companies, Dell has direct relationships with all of its customers, and we organize our business around well-defined customer segments to focus on and deepen those relationships. We believe that our direct model is the approach best suited to understanding and fulfilling customer needs. Independent reports of customer satisfaction continue to support that conclusion.



Return on Invested Capital

Second, the value customers receive as a result of our pricing advantage does not alone account for Dell's past performance. Two-thirds of our customers tell us that they select Dell primarily for reasons other than price, among them our value-added services and insight to technology trends. They recognize that the systems we design and build are consistently rated among the industry's finest. Further, they appreciate having a single point of contact and accountability for their product and service needs.

Dell remains committed to achieving high

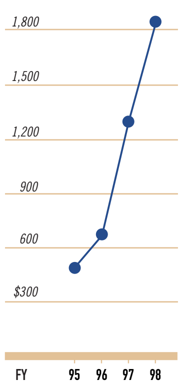


Days Supply in Inventory

Third, we are perpetually enhancing our direct business model. The Internet provides vivid evidence of how we are taking our model to higher levels of efficiency. We are using www.dell.com—which runs on a series of Dell PowerEdge network servers—to make it easier for customers to do business with us, reduce their costs and ours, and enhance relationships with our customers and suppliers. We have made great progress toward all three objectives, and we believe we have tapped only a fraction of the Internet's full potential.

We remain clearly focused on providing our customers with a superior overall experience through continued enhancement of our direct model. We also are committed to using our capital resources most effectively—and to achieving industry-leading speed, quality and customer loyalty—through strategic alliances and partnerships with the best suppliers and service providers wherever appropriate.

As we look ahead, we expect that further evolution in microprocessor and software technology and ongoing component cost reductions will help drive strong industry demand. We are confident that Dell's model, if properly executed, will permit us to gain a significant share of that new demand. Consolidation trends in our industry favor top-tier companies, including Dell. Last year, more than three-quarters of worldwide computer-industry growth—and better than 90 percent of U.S. growth—was claimed by just five computer companies.

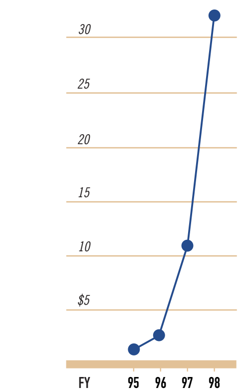


Cash and
Marketable Securities
(in millions)

There are challenges to meeting our objectives for customer loyalty, operating results and creation of shareholder value. Extending our reach in new markets requires us to make significant investments. We must continue to quickly pass along component cost reductions to our customers in all markets. Dell's rate of growth demands that we constantly and rapidly strengthen our infrastructure. And it is critical to our future success that we recruit, develop and retain highly skilled people at all levels of our organization.

levels of loyalty through its customer-focused direct business model.

We recognize that our direct model is only as good as the people who apply it to our daily business. Credit for its very effective implementation this past year goes to the 16,000 Dell employees around the world.



Market Capitalization (in billions)

We intend to aggressively pursue the rich opportunities we see before us. To that end, we are investing heavily in new sales, product design and manufacturing facilities in North America, Europe and Asia. And we will soon embark on our first global marketing campaign in support of the Dell brand, giving a powerful voice to what the Dell direct model means in terms of overall customer experience and loyalty.

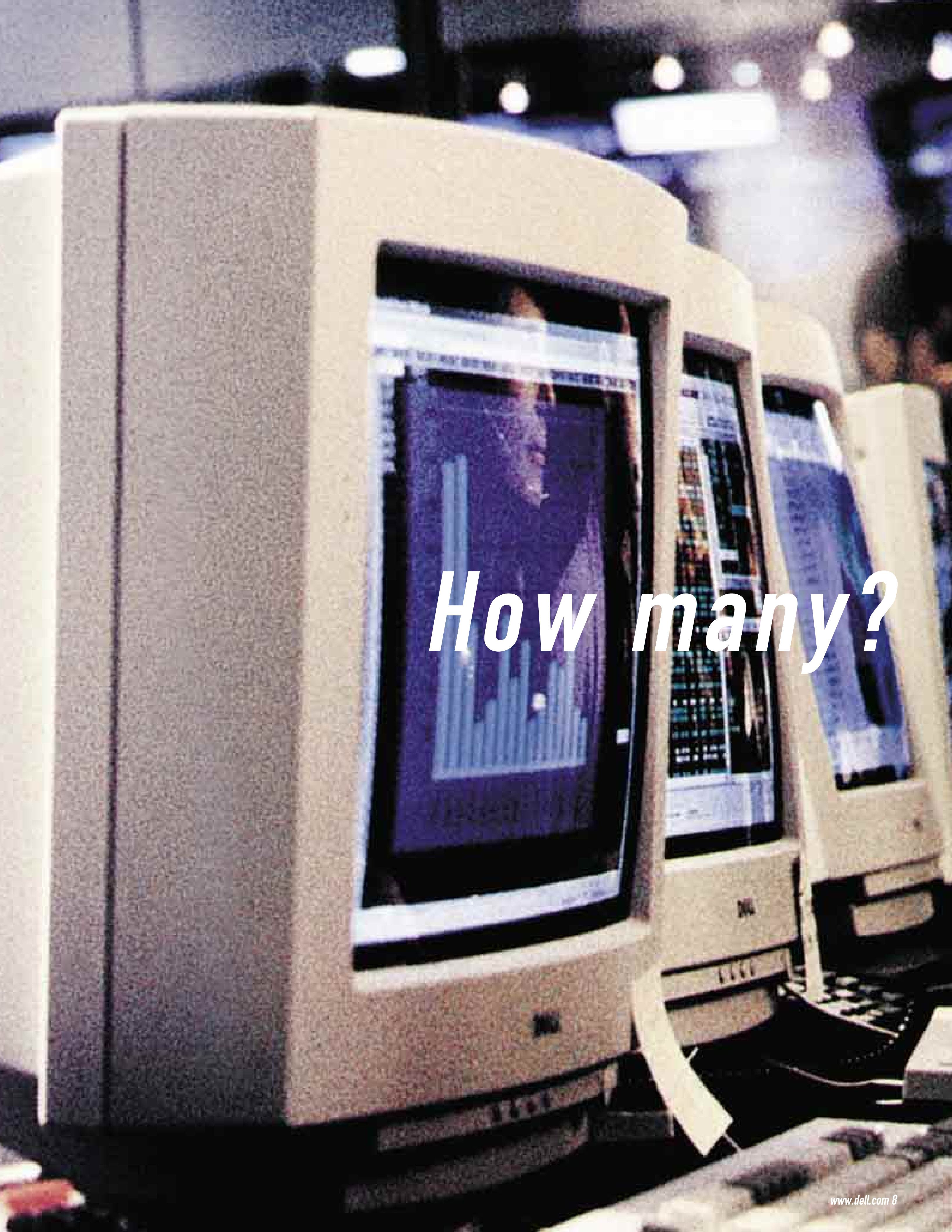
We believe that our company's cumulative achievements provide a solid basis for confidence in our ability to create superior value going forward, for our customers, our shareholders and our employees. Your confidence is prized by all of us at Dell, but not taken for granted. Our confidence represents strong competitive desire, not complacency. We intend to continue to demonstrate that your faith and ours are both very well placed.

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

Morton L. Topfer
Vice Chairman

Kevin B. Rollins
Vice Chairman

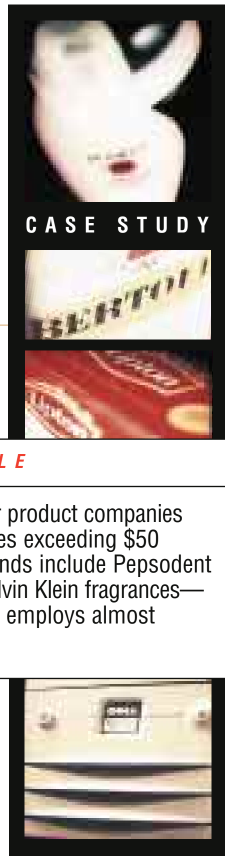
May 1, 1998



How many?


1 or 100 or 1,000.

UNILEVER



Dell is the world's leading

PROFILE

One of the largest consumer product companies in the world, with annual sales exceeding $50 billion. Unilever—whose brands include Pepsodent toothpaste, Lipton tea and Calvin Klein fragrances—operates in 88 countries and employs almost 270,000 people.

SITUATION

Unilever wanted to purchase computer systems more efficiently and reduce the associated cost of supporting such tools.

SOLUTION

Dell—which provides Unilever with desktop and notebook computers, workstations, and network servers—helped Unilever select uniform hardware configurations that best met its information-technology needs, and extended standard global pricing for the specified systems. Dell established on-line ordering for Unilever via the Internet at www.dell.com. Orders placed electronically are routed through Unilever's corporate intranet to one of Dell's three manufacturing facilities around the world for system configuration, testing and shipment.

BENEFIT

Unilever's procurement process was simplified and its receipt of new computer systems accelerated. Dell's global account management helped reduce Unilever's associated costs by $20 million in the first two years alone.

Dell Computer Corporation's exceptional operating results and industry-leading growth in fiscal 1998 have been well chronicled. People trying to explain Dell's rapid expansion often attribute it to price. That's not surprising, because analysts have consistently reported that Dell's efficient direct model allows the company to sell computers at prices significantly lower than those available from indirect companies, which build their products according to market forecasts and sell them through resellers, retailers and other intermediaries.

Price, however, is an incomplete explanation of a compound annual growth rate of more than 50 percent since 1995. That rationale underestimates customers who more and more are recognizing the full benefits of Dell's business model. Because the company deals directly with virtually every customer, Dell understands the requirements of those customers more precisely than most computer makers.

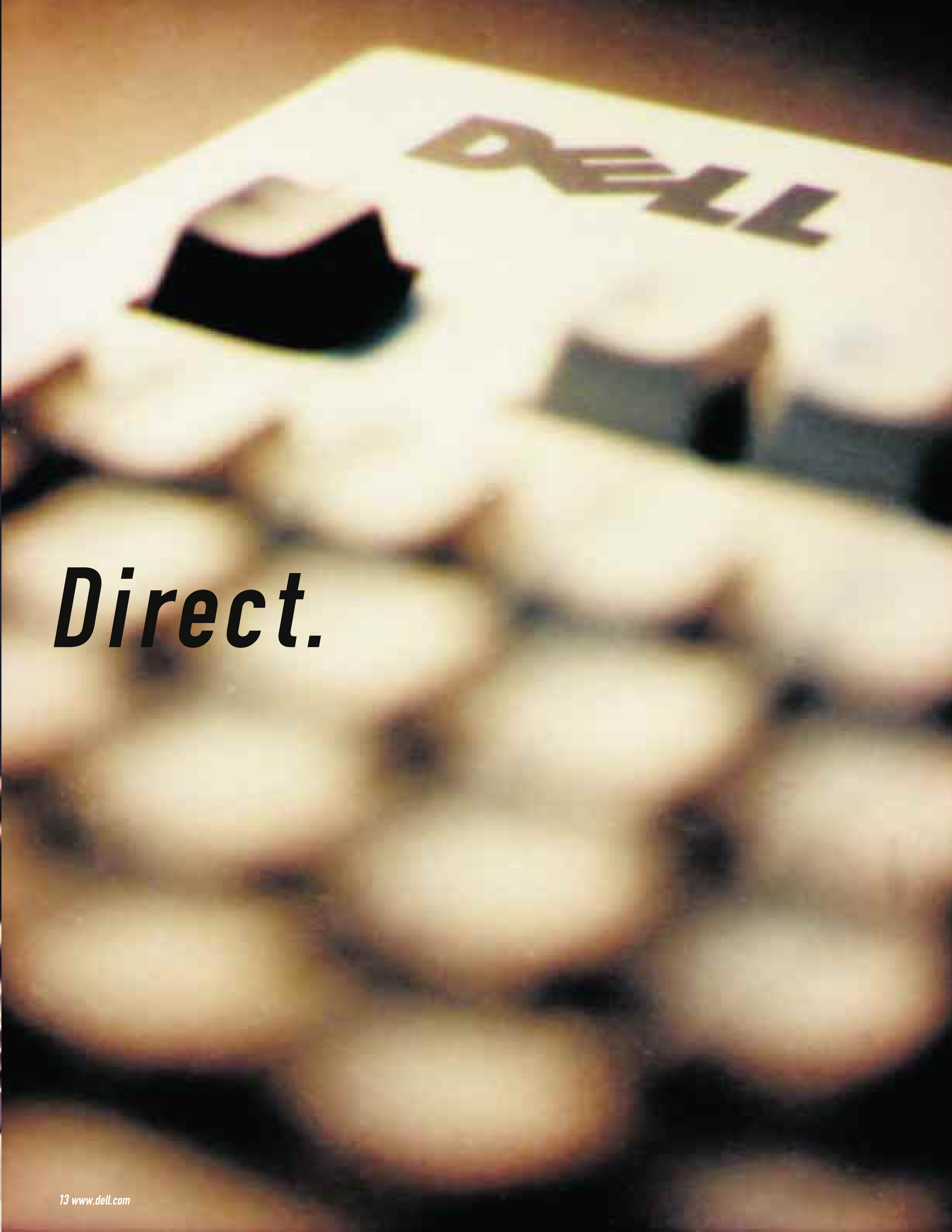
direct computer systems company.

There are at least five factors—customer intimacy, broad product offerings, value-added services, global reach and www.dell.com—that together help explain why large and fast-growing numbers of customers of all types are considering, selecting and making repeat computer purchases from Dell. By aggressively and strategically using those customer benefits to distinguish and distance the company from its competitors, Dell has the potential to continue to grow and create customer and shareholder value more rapidly than the computer systems industry as a whole.

CUSTOMER INTIMACY The fundamental advantages of Dell's direct model have been sharpened by the company's ongoing strategy of segmenting the marketplace into well-defined customer groups. Each customer group has unique computing needs: global service capabilities are critical to large corporations, for example, while medium-sized businesses place high value on presale, product-repair and help-desk support.

By organizing its marketing and sales functions around distinct customer groups—particularly in the Americas region, but increasingly in other markets—Dell is able to address varying customer needs with greater precision and speed. Last year, the company grew at multiples of the industry


How close?


DELL
Direct.

in every customer segment, from large corporations to individual consumers. In fiscal 1998, the company carried its segmentation strategy further, splitting its Americas education business from that of state and local government, and separating its small-business group from consumer sales and marketing.

The latter move coincided with Dell's decision to step up its offerings for knowledgeable home-computer users—customers who already accounted for about $1 billion of annual Dell revenues even without a targeted effort by the company. Last year, Dell tripled its U.S. consumer-marketing budget and expanded related products and services. As part of that effort, Dell became the first computer manufacturer to lease computers to individual customers. The company's reward for its increased efforts in the home-computer category: a 78-percent year-over-year increase in sales last year, best among all Dell Americas business segments.

In the U.S. alone, Dell has more than 200,000 direct

BROAD PRODUCT OFFERINGS From desktop to notebook computers, from workstations to network servers, Dell designs, builds and services all of the computer systems necessary to run the vast majority of global business enterprises.

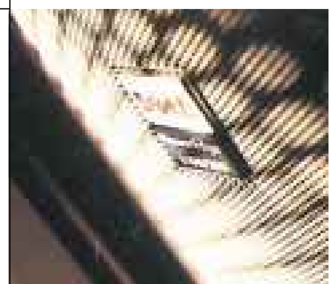
In little more than a year following introduction of its PowerEdge line of network servers, Dell became the third-largest vendor of network servers in the U.S. and fourth-largest in the world. Last year, the company added advanced networking solutions such as clustered servers to help customers eliminate down time; rack-mounted systems, so that customers can get more servers and storage into less space; and network-management software that helps both reduce the cost of ownership and make systems easier to manage. With its introduction of PowerEdge servers to Japan last September, Dell has extended its server business into every major world market.

Dell further enhanced its enterprise capabilities in fiscal 1998 when the company entered the market for high-performance workstations. Dell's workstation products were introduced to a marketplace increasingly adopting Microsoft's Windows NT operating system over proprietary software.

CASE STUDY

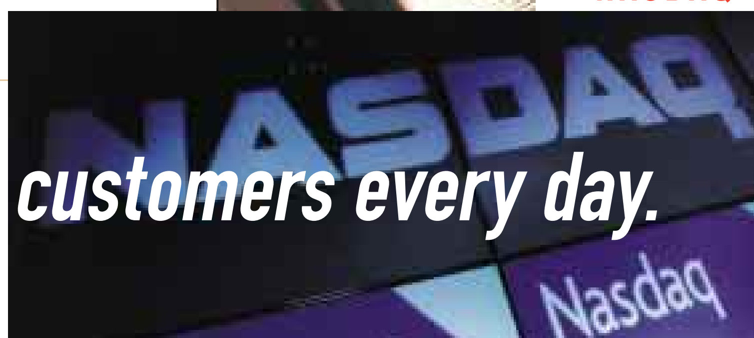
PROFILE

Fastest-growing major stock market in the world, and the first electronic-based market ever created. More than one-half of all the shares traded in the U.S. each day move through Nasdaq.



NASDAQ STOCK MARKET

contacts with customers every day.



SITUATION On Oct. 27, 1997, an economic crisis in Asia sparked a frenzy of stock-market activity that sent trading volumes to a record high. The Nasdaq Stock Market received an unprecedented 20 million hits in one day at its Internet trading site, nasdaq.com, and urgently needed additional server systems to handle those increases.

SOLUTION Nasdaq turned to Dell, which built and shipped eight custom-configured, fully tested PowerEdge 6100 server systems in just 36 hours. Three days later, Nasdaq was using the servers to conduct on-line business.

BENEFIT Dell's unique, customer-focused direct business model provided Nasdaq with the right systems and the latest relevant technology within a timeframe no other PC manufacturer could have matched. Such a rapid turnaround was made possible by Dell's direct relationship with Nasdaq. Within Dell, the Nasdaq sales, procurement and manufacturing team worked together to understand, then rapidly respond to, customer needs and expectations.


Connected?

dell.com.

CASE STUDY

SHELL OIL COMPANY

PROFILE

One of America's leading explorers and producers of crude oil and natural gas—and a manufacturer, transporter and marketer of oil and chemical products—Shell Oil Company is an affiliate of Royal Dutch/Shell Group of Companies.

SITUATION

To help employees improve their computer skills—and, in turn, raise the company's own productivity—Shell sought to make it easier and less expensive for them to purchase home PCs.

Sales via www.dell.com are

SOLUTION

Dell was already supplying Shell with a variety of computer systems and services, many through a customized Shell World Wide Web site, or Premier Page, at www.dell.com. Working with the global petroleum-industry leader, Dell designed an order site through Shell's Premier Page at which employees configure and purchase Dell systems on-line. Shell offered employee incentives such as free software, printers and extended warranties and interest-free loans.

BENEFIT

In the first four months of the program, 6,000 employees—more than 30 percent of Shell's U.S. work force—purchased Dell Dimension desktop or Latitude notebook computers for home use. Dell's on-line capability was critical to the program's success: Shell determined that administering such a project manually would have been too costly and time-consuming to be worthwhile. Dell has since established similar employee-purchase programs for more than 50 other customers.

Like the company's other products, Dell Precision workstations are being recognized by leading technology publications for their strong price-for-performance profile. Sales of OptiPlex and Dell Dimension desktop computers grew at four times the industry rate last year, and the products garnered an unprecedented 174 awards for performance, reliability and service. Recognition of Dell's desktop PCs included "Product of the Year" and "Most Valuable Product" awards from *PC Computing Magazine*, seven prestigious "Editor's Choice" designations from *PC Magazine* in the United States, "MVP" by *PC Computing Japan*, and "Best Desktop PC" (Hong Kong) and "PC of the Year" (Australia) by *PC World Online*.

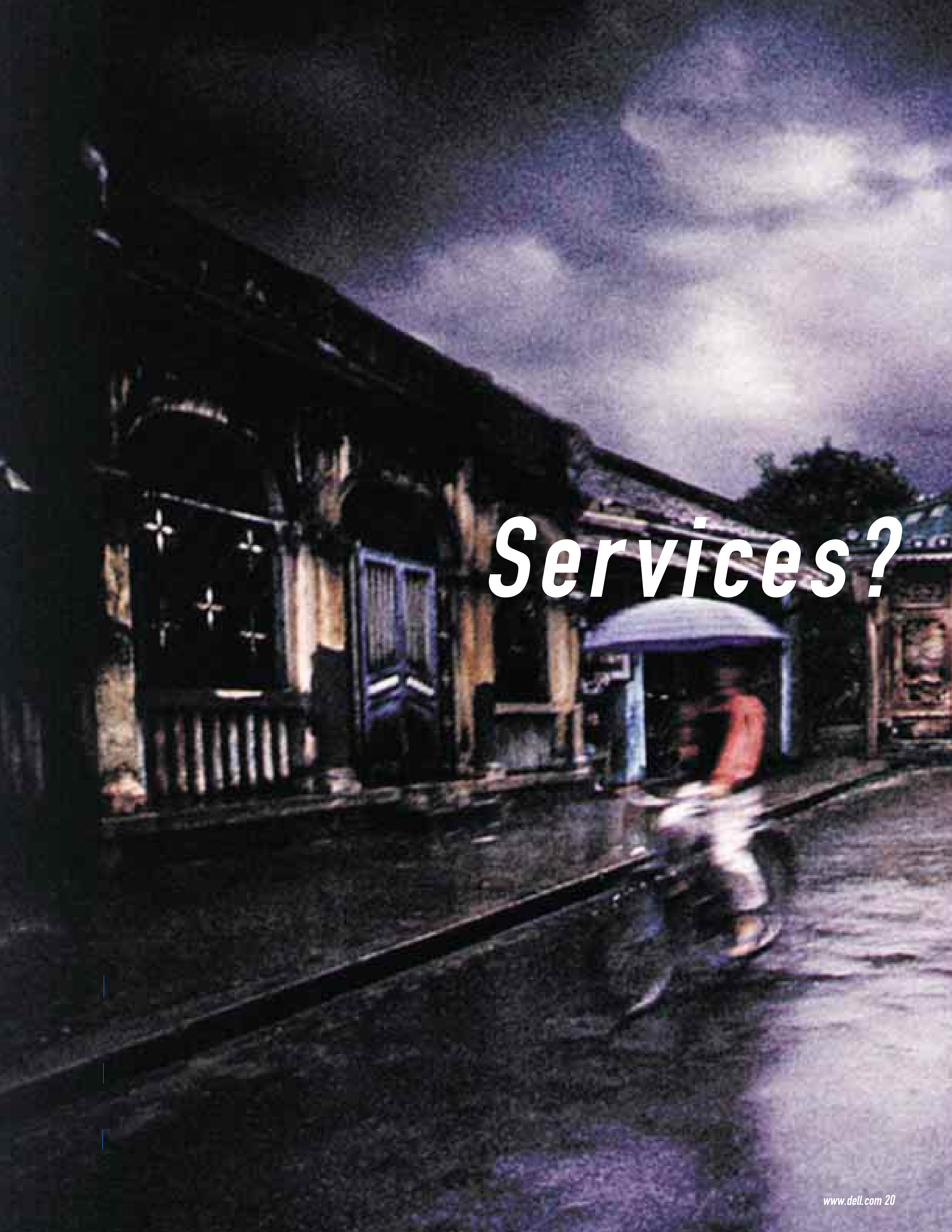
Sales growth for the company's notebook computers was three times the overall industry rate. Dell developed and last fall introduced a second line of notebook products: the award-winning

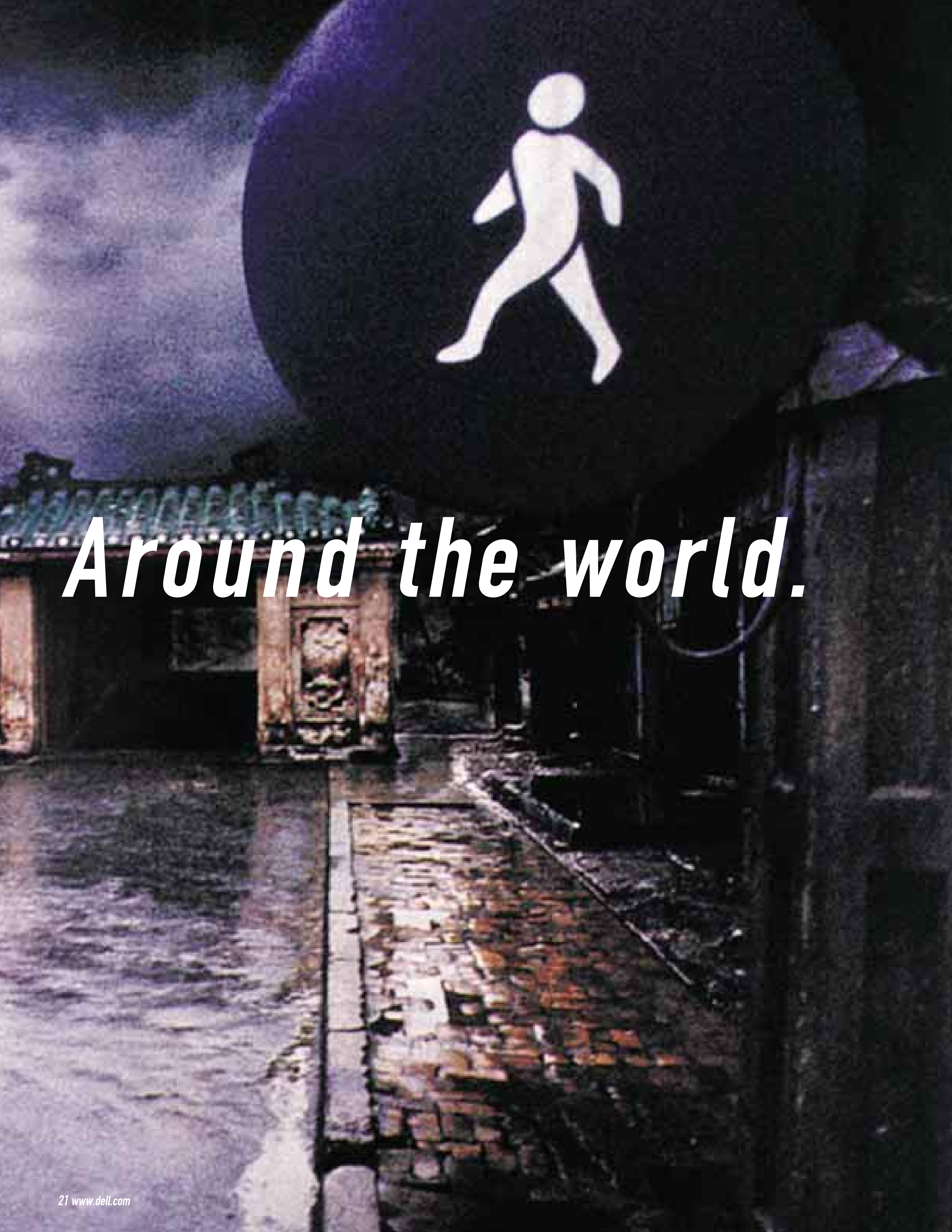
$5 million a day, and growing.

Inspiron brand, which is targeted to technology enthusiasts, complements the Latitude line, which is designed for corporate users.

VALUE-ADDED SERVICES Customers increasingly are choosing Dell as a preferred provider because of its strong and evolving global service capabilities. Between its own on-site systems engineers and consultants, and employees of strategic service partners such as Wang Global, Unisys Corp. and Decision One Consulting, Dell has more than 10,000 service providers around the world. Dell's resources encompass a range of tailored customer services, including technology planning and acquisition, system deployment, network and product maintenance, technical support, and asset management.

Perhaps Dell's most distinctive value-added service is its ability to custom configure hardware and software as it builds computer systems, one order at a time. Such single-step integration is efficient for Dell and its customers, and, because it reduces the number of times systems are handled, produces higher-quality products.


Services?


Around the world.

Industry watchers have consistently recognized the quality of Dell's service capabilities. In *PC World* magazine's 1997 service and reliability survey of 13,000 computer users, Dell received the only five-star rating in all nine categories and was named "Best Overall" for the second straight year. That same publication has given Dell its "World Class" award for service and support for four consecutive years. And the company is a nine-time winner of the "Reader's Choice" award for service and reliability from *PC Magazine*.

GLOBAL REACH The company's consistent approach to doing business around the world allows Dell to give customers consistent product quality across the full line of Dell products from manufacturing plants in the U.S., Ireland and Malaysia; a single point of contact and accountability; global pricing; and services virtually wherever they are needed.

Dell provides global customers with a single point

Dell has achieved its largest regional market share and sales volume in the Americas, where it is the second-largest supplier of corporate desktop computers. To accommodate growth in the Americas, Dell in April 1997 opened a new 285,000-square-foot facility in Austin, Texas, at which it manufactures OptiPlex corporate desktop computers. The company recently broke ground on an even larger manufacturing plant for servers and workstations. At the same time, Dell is expanding sales, engineering and administrative facilities at its Round Rock, Texas, headquarters.

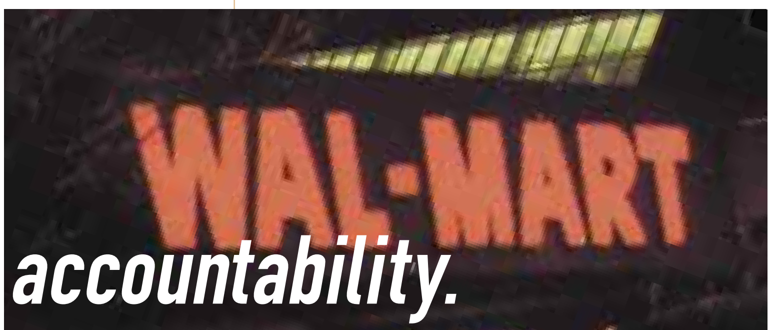
However, Dell's physical expansion, like its sales growth, is not limited to the U.S. The company has acquired a second European manufacturing plant in Limerick, Ireland, from which it will begin shipping systems this summer. And an integrated customer center and production facility opening soon in Xiamen, China, will give Dell its first major presence in the world's most populous country, where it has marketed computers through distributors for several years.

CASE STUDY

PROFILE

The world's largest retailer, operating throughout North America and in Europe as well as Asia, Wal-Mart Stores Inc. employs more than 800,000 associates worldwide.

WAL-MART STORES INC.



of contact, and accountability.

SITUATION

Wal-Mart, a company known for industry-leading customer service, wanted to enhance the shopping experience by building multimedia kiosks where videotapes and compact audio discs could be previewed before a purchase. To do so in time for the 1997 Christmas shopping season, Wal-Mart needed thousands of custom-configured computer systems in a matter of weeks.

SOLUTION

Wal-Mart contracted with Dell, whose OptiPlex desktop computers were already standard in the retailer's home offices. Through its build-to-order manufacturing process, Dell built and shipped 6,000 systems for nearly 2,000 Wal-Mart stores across the U.S. in just six weeks. Dell custom-configured and tested 2,000 OptiPlex desktop PCs and 4,000 Dell PowerEdge servers with proprietary and multimedia software. Dell later took on the added responsibilities of loading proprietary software and testing systems on-site to simplify installation.

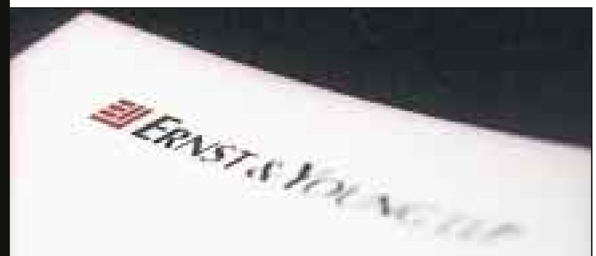
BENEFIT

Dell helped Wal-Mart markedly raise its customer service capabilities during the year's busiest and most important shopping season.


How fast?


Right away.

CASE STUDY



ERNST & YOUNG LLP

PROFILE

Ernst & Young provides assurance and advisory business services, tax services and consulting for domestic and global clients. The firm has 29,000 people in 87 U.S. cities.

SITUATION

The global professional services leader developed a best-in-class program to closely manage its technology assets, including personal computers. Within that program, Ernst & Young asked Dell not only to supply new computer systems, but to efficiently dispose of obsolete systems and help E&Y to plan for its long-term computing needs.

Dell uses its strong financial

SOLUTION

Through service partners, Dell refurbishes and markets or disposes of E&Y's older computer equipment. To replace that equipment, Ernst & Young has leased more than 32,000 Dell Latitude notebook and OptiPlex desktop computers, refreshing technology every 30 months. Representatives of the two organizations meet quarterly to plan for product transitions to meet changing market demands.

BENEFIT

To date, 19,000-plus systems have been placed into recovery, and Ernst & Young has saved more than $2.1 million in related costs. In deploying 27,000 Dell notebook computers to U.S. personnel worldwide, Ernst & Young is able to advance its knowledge management process—and provide value to its clients—by creating 24-hour employee access to critical business databases.

WWW.DELL.COM Less than two years ago, Dell launched on-line sales and service at www.dell.com, believing that the Internet is a natural extension of its model for doing business directly with customers, without intermediaries. In April 1998, Dell's on-line sales reached $5 million per day, and the capability is being embraced by a wide range of customers. Savvy consumers and home-office computer users were early adopters, but institutional customers are buying desktop and notebook computers, workstations and servers via www.dell.com in increasing volumes, as well.

And the scope of Dell's Internet business is global. Though the majority of the company's current sales through www.dell.com are within the U.S., sales from other markets grew to 20 percent of the company's on-line total in less than one year. To date, about 20 percent of the more than 2,000 specialized Dell Internet sites created for large corporate customers are for companies based outside of the U.S., and there are versions of the company's World Wide Web site in 35 countries.

performance to invest in creating customer loyalty.

The company's widening ability to sell computer systems via the Internet has earned Dell a good deal of attention. However, the potential of the Internet to simultaneously help increase customer satisfaction and lower operating costs is equally compelling.

Customers visiting www.dell.com can configure, price and order computer systems—and much more—24 hours a day, seven days a week. They can get current order-status and delivery information. They have on-line access to the same technical reference materials used by Dell telephone-support teams, 45,000 service and support items sorted and presented by system model. Internet-based services are convenient to customers and reduce the number of telephone calls to Dell for such information—freeing support employees to provide higher-value service.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The Company's objective is to maximize stockholder value by executing a strategy that focuses on a balance of three priorities: growth, profitability and liquidity. The following discussion highlights the Company's performance in the context of these priorities. This discussion should be read in conjunction with the Consolidated Financial Statements.

RESULTS OF OPERATIONS

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				
(dollars in millions)	*February 1, 1998*	*Increase*	*February 2, 1997*	*Increase*	*January 28, 1996*
Net revenue	$ 12,327	59%	$ 7,759	47%	$ 5,296
Gross margin	$ 2,722	63%	$ 1,666	56%	$ 1,067
Percentage of net revenue	22.1%		21.5%		20.2%
Operating expenses	$ 1,406	48%	$ 952	38%	$ 690
Percentage of net revenue	11.4%		12.3%		13.1%
Operating income	$ 1,316	84%	$ 714	90%	$ 377
Percentage of net revenue	10.7%		9.2%		7.1%
Net income available to common stockholders	$ 944	83%	$ 518	99%	$ 260

Net Revenue

The Company has become one of the top three computer vendors in the world as a result of its continued revenue growth. The increases in consolidated net revenue for both fiscal 1998 and fiscal 1997 were principally due to increased units sold. Unit shipments grew 60% and 55% for fiscal years 1998 and 1997, respectively.

The unit volume growth in fiscal 1998 resulted from increased demand for the Company's products across all product lines. This growth was driven by the Company's continued sales efforts to win new customer accounts through aggressive pricing actions and to increase market penetration of new and higher-end products, including products incorporating Intel's Pentium(R) Pro and Pentium II processors of speeds greater than 200MHz. While desktop products continue to be the primary driver of unit volumes (comprising 84% of total unit shipments in fiscal 1998), the growth rates in both the enterprise (the combination of servers and workstations) and notebook product lines exceeded the growth rate in desktops during fiscal 1998. Unit sales of desktop computers increased 55%, while unit sales of enterprise and notebook computers increased 265% and 66%, respectively, during fiscal 1998.

Average revenue per unit in fiscal 1998 remained relatively stable compared to fiscal 1997. Although aggressive pricing in the desktop product line adversely affected average revenue per unit, this was partially offset by increases in the enterprise and notebook product lines, primarily due to a migration to higher-end enterprise and higher-platform notebook systems.

The unit volume increase in fiscal 1997 was also a result of increased demand for the Company's products across all product lines. In particular, demand for enterprise products resulted in unit growth of 160% in fiscal 1997, compared to a 37% decrease in units in fiscal 1996. Additionally in fiscal 1997, the Company continued to introduce products utilizing latest technology, including products incorporating Intel's Pentium and Pentium Pro processors with speeds of 200MHz level.

The Company experienced growth in net revenue in all geographic regions in both fiscal 1998 and fiscal 1997. The following table summarizes the Company's net revenue by geographic region for each of the past three fiscal years:

	Fiscal Year Ended					
(dollars in millions)	*February 1, 1998*		*February 2,1997*		*January 28, 1996*	
Net revenue:						
Americas	$ 8,531	69%	$ 5,279	68%	$ 3,474	66%
Europe	2,956	24	2,004	26	1,478	28
Asia-Pacific and Japan	840	7	476	6	344	6
Consolidated net revenue	$ 12,327	100%	$ 7,759	100%	$ 5,296	100%

In the Americas region, where efforts have allowed the Company to build valuable supplier and customer relationships, net revenue grew 62% and 52% in fiscal 1998 and fiscal 1997, respectively. In the European region, substantially all countries experienced revenue growth in both fiscal 1998 and 1997. This allowed Europe to increase revenue 48% and 36% in fiscal 1998 and fiscal 1997, respectively. Asia-Pacific and Japan revenues increased 77% in fiscal 1998 compared to a 38% increase in fiscal 1997.

Management believes that opportunity exists for continued worldwide growth by increasing the Company's market presence in existing markets, entering new markets and pursuing additional product opportunities. In fiscal 1998, the Company continued to drive revenue growth through its Internet Web site located at www.dell.com. By fiscal year-end, revenue generated through this venue exceeded $4 million a day. Management believes that the Internet will continue to be a significant sales and service medium for the Company in the future. Additionally in fiscal 1998, the Company expanded its product offerings to include high-performance workstations, and formed a business unit dedicated to workstations in order to grow this product line. As a result of these and other opportunities, the Company has announced plans to acquire an additional manufacturing facility in Limerick, Ireland and to construct an additional manufacturing facility in Austin, Texas and a manufacturing facility in Xiamen, China.

Gross Margin

The increase in gross margin as a percentage of net revenue in fiscal 1998 over fiscal 1997 was the result of several factors, including component cost declines (which were partially offset by price reductions), manufacturing efficiencies and an overall shift in mix to higher-end servers and higher-priced notebook platforms. Additionally in fiscal 1998, the Company experienced a higher mix of Intel's Pentium Pro and Pentium II processors with speeds greater than 200MHz. This contributed to the demand for higher-performance products, which typically carry higher gross margins. The Company's direct business model involves the maintenance of low levels of inventory. Consequently, component cost declines can have a significant impact on overall product costs and gross margin. During fiscal 1998, significant component cost declines occurred (particularly mid-year, in memory components), causing a decline in overall product costs. However, the Company's aggressive pricing strategies mitigated the impact of these cost declines on gross margin. Gross margin also benefited as the Company successfully migrated customers to higher-end enterprise systems with additional options for external storage capacity and higher-platform notebook computers. The mix of enterprise and notebook products increased to 9% and 20% of system revenue, respectively, compared with 4% and 18%, respectively, during the prior fiscal year.

The gross margin increase as a percentage of consolidated net revenue in fiscal 1997 resulted primarily from component cost declines (which were partially offset by price reductions) and a product mix shift to notebooks, servers and higher-end desktop products. Additionally, during fiscal 1996 the Company experienced a problematic product transition involving certain of its OptiPlex desktop products, which had an adverse effect on gross margin.

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		
(dollars in millions)	*February 1, 1998*	*February 2, 1997*	*January 28, 1996*
Operating expenses:			
Selling, general and administrative	$ 1,202	$ 826	$ 595
Percentage of net revenue	9.8%	10.7%	11.3%
Research, development and engineering	$ 204	$ 126	$ 95
Percentage of net revenue	1.6%	1.6%	1.8%
Total operating expenses	$ 1,406	$ 952	$ 690
Percentage of net revenue	11.4%	12.3%	13.1%

Selling, general and administrative expenses increased in absolute dollar amounts but declined as a percentage of net revenue for both fiscal 1998 and 1997. 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 expense as a percentage of net revenue resulted from significant net revenue 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 new products.

The Company believes that its ability to manage operating costs is an important factor in its ability to remain competitive and successful. The Company will continue to invest in information systems, personnel and other infrastructure, and in research, development and engineering activities, to 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 revenue and gross margin.

Operating Income

While delivering annual revenue growth of 59% and 47% in fiscal years 1998 and 1997, respectively, the Company has grown operating income by 84% in fiscal 1998 and 90% in fiscal 1997. This reflects the Company's ability to manage operating expenses in relation to growth in gross margin to deliver strong operating performance.

Financing and Other

Financing and other increased $19 million in fiscal 1998 from fiscal 1997 to $52 million primarily as a result of increased investment income due to increased average marketable securities balances. Also, financing and other increased $27 million in fiscal 1997 from fiscal 1996 to $33 million due to increased investment income and decreased interest expense.

Income Taxes

The Company's effective tax rate was 31% for fiscal 1998 compared to 29% for both fiscal 1997 and 1996. The increase in the effective tax rate resulted from changes in the geographical distribution of income and losses. 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%.

LIQUIDITY AND CAPITAL RESOURCES

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

(dollars in millions)	Fiscal Year Ended February 1, 1998	February 2, 1997	January 28, 1996
Cash and marketable securities	$ 1,844	$ 1,352	$ 646
Working capital	$ 1,215	$ 1,089	$ 1,018
Days of sales in accounts receivable	36	37	42
Days of supply in inventory	7	13	31
Days in accounts payable	51	54	33

During fiscal 1998, the Company generated $1.6 billion in cash flows from operating activities, which represents the Company's principle source of cash. Cash flows from operating activities benefited from increased net income and continued asset management focus.

During fiscal 1998, the Company repurchased 69 million shares of its common stock for an aggregate cost of $1.0 billion. The Company is currently authorized to repurchase up to 100 million additional shares of its common stock and anticipates that repurchases under this program will constitute a significant use of future cash resources. At February 1, 1998, the Company held equity instrument contracts that relate to the purchase of 50 million additional shares of its common stock for an average cost of $44 per share exercisable at various times in the first quarter of fiscal 1999 through the third quarter of fiscal 2000. For additional information regarding the Company's stock repurchase program, see Note 7 of Notes to Consolidated Financial Statements.

The Company utilized $187 million in cash during fiscal 1998 to construct and equip manufacturing and office facilities. The Company expects to spend approximately $330 million to purchase capital items for manufacturing and office facilities during fiscal 1999 to support the Company's continued growth.

During fiscal 1998, the Company replaced two revolving credit facilities with one $250 million 5-year revolving credit facility. Additionally, during fiscal 1996, the Company entered into a transaction that gives the Company the ability to raise up to $150 million through a receivables securitization facility. At both February 1, 1998 and February 2, 1997, these facilities were unused.

During fiscal 1998, the Company entered into a $227 million master lease facility, which allows the Company to lease certain real property, buildings and equipment to be constructed or acquired. At February 1, 1998, $43 million of this facility had been utilized.

In March 1998, the Company filed a registration statement with the U.S. Securities and Exchange Commission related to $500 million of debt securities. Presently, no securities under this registration are issued or outstanding.

Management believes that the Company has sufficient resources from cash provided from operations and available borrowings to support its operations and capital requirements for at least the next twelve months.

MARKET RISK

The Company is exposed to a variety of risks, including foreign currency fluctuations and changes in the market value of its investments. In the normal course of business, the Company employs established policies and procedures to manage its exposure to fluctuations in foreign currency values and changes in the market value of its investments.

Foreign Currency Hedging Activities

The Company's objective in managing its exposure to foreign currency exchange rate fluctuations is to reduce the impact of adverse fluctuations in earnings and cash flows associated with foreign currency exchange rate changes. Accordingly, the Company utilizes foreign currency option contracts and forward contracts to hedge its exposure on anticipated transactions and firm commitments. The principle currencies hedged are the British pound, Japanese yen, German mark, French franc and Canadian dollar. The Company monitors its foreign exchange exposures daily to ensure the overall effectiveness of its foreign currency hedge positions. However, there can be no assurance the Company's foreign currency hedging activities will substantially offset the impact of fluctuations in currency exchange rates on its results of operations and financial position.

Based on the Company's foreign exchange instruments outstanding at February 1, 1998, the Company estimates a maximum potential one-day loss in fair value of $12 million, using a Value-at-Risk ("VAR") model. The VAR model estimates were made assuming normal market conditions and a 95% confidence level. There are various types of modeling techniques that can be used in a VAR computation; the Company used a Monte Carlo simulation type model that valued its foreign currency instruments against a thousand randomly generated market price paths. Anticipated transactions, firm commitments, receivables and accounts payable denominated in foreign currencies were excluded from the model. The VAR model is a risk estimation tool, and as such is not intended to represent actual losses in fair value that will be incurred by the Company. Additionally, as the Company utilizes foreign currency instruments for hedging anticipated and firmly committed transactions, a loss in fair value for those instruments is generally offset by increases in the value of the underlying exposure. Foreign currency fluctuations did not have a material impact on the Company during fiscal years 1998, 1997 and 1996.

Marketable Securities

The fair value of the Company's investments in marketable securities at February 1, 1998 was $1.5 billion. The Company's investment policy is to manage its marketable securities portfolio to preserve principal and liquidity while maximizing the return on the investment portfolio through the full investment of available funds. The Company diversifies the marketable securities portfolio by investing in multiple types of investment-grade securities and through the use of different investment brokers. The Company's marketable securities portfolio is primarily invested in short-term securities with at least an investment grade rating to minimize interest rate and credit risk as well as to provide for an immediate source of funds. Based on the Company's marketable securities portfolio and interest rates at February 1, 1998, a 175 basis point increase or decrease in interest rates would result in a decrease or increase of $17 million, respectively, in the fair value of the marketable securities portfolio. Although changes in interest rates may affect the fair value of the marketable securities portfolio and cause unrealized gains or losses, such gains or losses would not be realized unless the investments are sold.

FACTORS AFFECTING THE COMPANY'S BUSINESS AND PROSPECTS

There are numerous factors that may affect the Company's business and the results of its operations. These factors include general economic and business conditions; the level of demand for personal computers; the level and intensity of competition in the personal computer industry and the pricing pressures that may result; the ability of the Company to timely and effectively manage periodic product transitions and component availability; the ability of the Company to develop new products based on new or evolving technology and the market's acceptance of those products; the ability of the Company to manage its inventory levels to minimize excess inventory, declining inventory values and obsolescence; the product, customer and geographic sales mix of any particular period; the Company's ability to continue to improve its infrastructure (including personnel and systems) to keep pace with the growth in its overall business activities; and the Company's ability to ensure its products and information systems and those of its third party providers will be Year 2000 compliant. For a discussion of these and other factors affecting the Company's business and prospects, see "Item 1—Business— Factors Affecting the Company's Business and Prospects" in the Company's Annual Report on Form 10-K.

Consolidated Statement of Financial Position

ASSETS

(in millions)	*February 1, 1998*	*February 2, 1997*
Current assets:		
Cash	$ 320	$ 115
Marketable securities	1,524	1,237
Accounts receivable, net	1,486	903
Inventories	233	251
Other	349	241
Total current assets	3,912	2,747
Property, plant and equipment, net	342	235
Other	14	11
Total assets	$ 4,268	$ 2,993
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,643	$ 1,040
Accrued and other	1,054	618
Total current liabilities	2,697	1,658
Long-term debt	17	18
Deferred revenue on warranty contracts	225	219
Other	36	13
Commitments and contingent liabilities	—	—
Total liabilities	2,975	1,908
Put options	—	279
Stockholders' equity:		
Preferred stock and capital in excess of $.01 par value; shares issued and outstanding: none	—	—
Common stock and capital in excess of $.01 par value; shares issued and outstanding: 644 and 692, respectively	747	195
Retained earnings	607	647
Other	(61)	(36)
Total stockholders' equity	1,293	806
	$ 4,268	$ 2,993

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

Consolidated Statement of Income

(in millions)	Fiscal Year Ended February 1, 1998	February 2, 1997	January 28, 1996
Net revenue	$ 12,327	$ 7,759	$ 5,296
Cost of revenue	9,605	6,093	4,229
Gross margin	2,722	1,666	1,067
Operating expenses:			
Selling, general and administrative	1,202	826	595
Research, development and engineering	204	126	95
Total operating expenses	1,406	952	690
Operating income	1,316	714	377
Financing and other	52	33	6
Income before income taxes and extraordinary loss	1,368	747	383
Provision for income taxes	424	216	111
Income before extraordinary loss	944	531	272
Extraordinary loss, net of taxes	—	(13)	—
Net income	944	518	272
Preferred stock dividends	—	—	(12)
Net income available to common stockholders	$ 944	$ 518	$ 260
Basic earnings per common share (in whole dollars):			
Income before extraordinary loss	$ 1.44	$ 0.75	$ 0.36
Extraordinary loss, net of taxes	—	(.02)	—
Earnings per common share	$ 1.44	$ 0.73	$ 0.36
Diluted earnings per common share (in whole dollars):			
Income before extraordinary loss	$ 1.28	$ 0.68	$ 0.33
Extraordinary loss, net of taxes	—	(.02)	—
Earnings per common share	$ 1.28	$ 0.66	$ 0.33
Weighted average shares outstanding:			
Basic	658	710	716
Diluted	738	782	790

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

Consolidated Statement of Cash Flows

(in millions)	Fiscal Year Ended February 1, 1998	February 2, 1997	January 28, 1996
Cash flows from operating activities:			
Net income	$ 944	$ 518	$ 272
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	67	47	38
Other	24	29	22
Changes in:			
Operating working capital	529	659	(195)
Non-current assets and liabilities	28	109	38
Net cash provided by operating activities	1,592	1,362	175
Cash flows from investing activities:			
Marketable securities:			
Purchases	(12,305)	(9,538)	(4,545)
Maturities and sales	12,017	8,891	4,442
Capital expenditures	(187)	(114)	(101)
Net cash used in investing activities	(475)	(761)	(204)
Cash flows from financing activities:			
Purchase of common stock	(1,023)	(495)	—
Repurchase of 11% Senior Notes	—	(95)	—
Issuance of common stock under employee plans	88	57	48
Cash received from sale of equity options	38	—	—
Preferred stock dividends and other	(1)	—	(14)
Net cash (used in) provided by financing activities	(898)	(533)	34
Effect of exchange rate changes on cash	(14)	(8)	7
Net increase in cash	205	60	12
Cash at beginning of period	115	55	43
Cash at end of period	$ 320	$ 115	$ 55

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

Consolidated Statement of Stockholders' Equity

(in millions)	Preferred Stock and Capital in Excess of Par Value		Common Stock and Capital in Excess of Par Value		Retained Earnings	Other	Total
	Shares	Amount	Shares	Amount			
Balances at January 29, 1995	1	$ 120	635	$ 242	$ 311	$ (21)	$ 652
Net income	—	—	—	—	272	—	272
Stock issuance under employee plans, including tax benefits	—	—	33	74	—	(17)	57
Preferred stock conversion	(1)	(114)	80	114	—	—	—
Other	—	—	—	—	(13)	5	(8)
Balances at January 28, 1996	—	6	748	430	570	(33)	973
Net income	—	—	—	—	518	—	518
Stock issuance under employee plans, including tax benefits	—	—	6	65	—	(18)	47
Purchase and retirement of 62 million shares	—	—	(62)	(22)	(388)	—	(410)
Purchase and reissuance of 19 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	—	—	692	195	647	(36)	806
Net income	—	—	—	—	944	—	944
Stock issuance under employee plans, including tax benefits	—	—	21	274	—	(11)	263
Purchase and retirement of 69 million shares	—	—	(69)	(39)	(984)	—	(1,023)
Reclassification of put options	—	—	—	279	—	—	279
Other	—	—	—	38	—	(14)	24
Balances at February 1, 1998	—	$ —	644	$ 747	$ 607	$ (61)	$ 1,293

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—Dell Computer Corporation, a Delaware corporation (including its consolidated subsidiaries, the "Company") designs, develops, manufactures, markets, services and supports a wide range of computer systems, including desktops, notebooks and enterprise systems (includes servers and workstations), and also markets software, peripherals and service and support programs. The Company markets its computer products and services under the Dell(R) 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 conducts operations worldwide through wholly owned subsidiaries; such operations are primarily concentrated in the United States, Europe and the Asia-Pacific rim.

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 the Company. All significant intercompany transactions and balances have been eliminated. 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 the use of management's estimates. These estimates are subjective in nature and involve judgements 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.

Marketable Securities—The Company's marketable securities are classified as available-for-sale and 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. Gains and losses on marketable securities are included in financing and other when realized. The Company accounts for highly liquid investments with maturities of three months or less at date of acquisition as marketable securities and reflects the related cash flows as investing cash flows. As a result, a significant portion of its gross marketable securities purchases and maturities disclosed as investing cash flows is related to highly liquid investments.

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

Property, Plant and Equipment—Property, plant and equipment are carried at depreciated cost. Depreciation is provided using the straight-line method over the estimated economic lives of the assets, which range from ten to thirty 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. 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. The Company's subsidiaries that do not have the U.S. dollar as their functional currency translate assets and liabilities at current rates of exchange in effect at the balance sheet date. The resulting gains and losses from translation are included as a component of stockholders' equity. Items of income and expense for the Company's international subsidiaries are translated using the monthly average exchange rates in effect for the period in which the items occur.

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.

Equity Instruments Indexed to the Company's Common Stock—Proceeds received upon the sale of equity instruments and amounts paid upon the purchase of equity instruments are recorded as a component of stockholders' equity. Subsequent changes in the fair value of the equity instrument contracts are not recognized. If the contracts are ultimately settled in cash, the amount of cash paid or received is recorded as a component of stockholders' equity.

Revenue Recognition—Sales revenue is recognized at the date of shipment to customers. Provision is made for an estimate of product returns and doubtful accounts and is based on historical experience. Revenue from separately priced service and extended warranty programs are deferred and recognized over the extended warranty period.

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 as incurred. Advertising expenses for fiscal years 1998, 1997 and 1996 were $137 million, $87 million and $83 million, respectively.

Stock-Based Compensation—The Company adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," in the fiscal year ended February 2, 1997. On adoption, the Company continued 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 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 for compensation expense over the vesting period for the difference between the exercise price and 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 tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Earnings Per Common Share—The Company adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share," in the fiscal year ended February 1, 1998. Basic earnings per share is based on the weighted effect of all common shares issued and outstanding, and is calculated by dividing net income available to common stockholders by the weighted average shares outstanding during the period. Diluted earnings per share is calculated by dividing net income available to common stockholders by the weighted average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming conversion of all potentially dilutive common shares outstanding. All historical earnings per share data have been restated to conform to this presentation. Below is the calculation of basic and diluted earnings per share for each of the past three fiscal years:

		Fiscal Year Ended	
(in millions, except per share data)	*February 1, 1998*	*February 2, 1997*	*January 28, 1996*
Net income	$ 944	$ 518	$ 272
Less: preferred stock dividends	—	—	(12)
Net income available to common stockholders	$ 944	$ 518	$ 260
Weighted average shares outstanding — Basic	658	710	716
Employee stock options and other	80	72	74
Weighted average shares outstanding — Diluted	738	782	790
Earnings per common share:			
Basic	$ 1.44	$ 0.73	$ 0.36
Diluted	$ 1.28	$ 0.66	$ 0.33

Recently Issued Accounting Pronouncement—On March 4, 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants, issued Statement of Position 98-1 (SoP 98-1), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which provides guidance concerning the capitalization of costs related to such software. The SoP 98-1 must be adopted by the Company effective as of fiscal year 2000 and is not expected to have a material impact to the Company's consolidated results of operations or financial position.

NOTE 2—Financial Instruments Disclosures About Fair Values of Financial Instruments

The fair value of marketable securities, long-term debt and interest rate derivative instruments has been estimated 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 summarizes by major security type the fair value of the Company's holdings of marketable securities.

(in millions)	*February 1, 1998*	*February 2, 1997*
Preferred stock	$ 172	$ 172
Mutual funds, principally invested in debt securities	800	182
Debt securities:		
State and municipal securities	190	317
U.S. corporate and bank debt	307	415
U.S. government and agencies	40	98
International corporate and bank debt	15	53
Total debt securities	552	883
Total marketable securities	$ 1,524	$ 1,237

At February 1, 1998 and February 2, 1997, the cost of marketable securities approximates fair value. At February 1, 1998, debt securities with a carrying amount of $414 million mature within one year; the remaining debt securities mature within three years. The Company's gross realized gains and losses on the sale of marketable securities for fiscal years 1998, 1997 and 1996 were not material.

FOREIGN CURRENCY INSTRUMENTS

The Company uses foreign currency purchased option contracts and forward contracts to reduce its exposure to currency fluctuations involving probable anticipated, but not firmly committed, transactions and transactions with firm foreign currency commitments. 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. Foreign currency purchased options generally expire in twelve months or less. At February 1, 1998, the Company held purchased option contracts with a notional amount of $2.0 billion, a carrying amount of $69 million and a combined net realized and unrealized deferred loss of $2 million. Additionally, 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 million. The risk of loss associated with forward contracts is equal to the exchange rate differential from the time the contract is entered into 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 1, 1998, the Company held forward contracts with a notional amount of $800 million, a carrying amount of $26 million and a combined net realized and unrealized deferred gain of $10 million. At February 2, 1997, the Company held foreign currency forward contracts with a notional amount of $207 million and a contract carrying amount of $12 million, which represented fair value.

LONG-TERM DEBT AND INTEREST RATE RISK MANAGEMENT

During fiscal 1997, the Company repurchased $95 million 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 $13 million (net of tax benefit of $7 million). In connection with the Senior Notes, the Company entered into interest rate swap agreements that expire on August 15, 1998. At February 1, 1998 and February 2, 1997, the Company had outstanding receive fixed/pay floating interest rate swap agreements in the aggregate notional amount of $100 million offset by receive floating/pay fixed interest rate swap agreements in the aggregate notional amount of $100 million. The notional amount of both the receive fixed/pay floating interest rate swaps and the offsetting receive floating/pay fixed interest rate swaps was 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% for fiscal years 1998, 1997 and 1996, respectively. The difference between the Company's carrying amounts and fair value on long-term debt and related interest rate swaps was not material at both February 1, 1998, and February 2, 1997, respectively.

NOTE 3—Income Taxes

The provision for income taxes consists of the following:

	Fiscal Year Ended		
(in millions)	*February 1, 1998*	*February 2,1997*	*January 28, 1996*
Current:			
Domestic	$ 362	$ 252	$ 102
Foreign	41	34	25
Deferred	21	(70)	(16)
Provision for income taxes	$ 424	$ 216	$ 111

Income before income taxes and extraordinary loss included approximately $205 million, $223 million and $176 million related to foreign operations in fiscal years 1998, 1997 and 1996, respectively.

The Company has not recorded a deferred income tax liability of approximately $127 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 components of the Company's net deferred tax asset (included in other current assets) are as follows:

	Fiscal Year Ended		
(in millions)	*February 1, 1998*	*February 2, 1997*	*January 28, 1996*
Provisions for product returns and doubtful accounts	$ 20	$ 31	$ 25
Inventory and warranty provisions	24	21	18
Deferred service contract revenue	124	107	53
Other	(62)	(26)	(29)
Net deferred tax asset	$ 106	$ 133	$ 67

The effective tax rate differed from statutory U.S. federal income tax rate as follows:

	Fiscal Year Ended		
(in millions)	*February 1, 1998*	*February 2, 1997*	*January 28, 1996*
U.S. federal statutory rate	35.0%	35.0%	35.0%
Foreign income taxed at different rates	(4.6)%	(6.2)%	(6.0)%
Other	0.6%	0.2%	—
Effective tax rates	31.0%	29.0%	29.0%

NOTE 4—Joint Venture

During fiscal 1998, the Company and Newcourt Credit Group Inc. formed a joint venture, Dell Financial Services L.P. ("DFS"), to provide leasing and asset management services to the Company's customers. The Company has a 70% interest in DFS; however, as the Company does not exercise control over DFS, it accounts for the investment under the equity method. Dell Credit Company L.L.C., which is owned 50% by the Company and 50% by Newcourt, is the sole general partner of DFS and, as such, is liable for the obligations of DFS. Operations of DFS for fiscal year 1998 were not material to the Company.

NOTE 5—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. During fiscal 1998, the Company replaced the two separate facilities with one $250 million 5-year revolving credit facility. Additionally during fiscal 1996, the Company entered into a transaction that gives the Company the ability to raise up to $150 million through a receivables securitization facility. Commitment fees for each of these facilities are paid quarterly and are based on specific liquidity requirements. Commitment fees paid in both fiscal 1998 and 1997 were not material to the Company. At both February 1, 1998 and February 2, 1997, these facilities were unused.

NOTE 6—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 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 million shares of common stock.

Series A Junior Participating Preferred Stock—In conjunction with the distribution of Preferred Share Purchase Rights (see Note 9 Preferred Share Purchase Rights), the Company's Board of Directors designated 200,000 shares of preferred stock as Series A Junior Participating Preferred Stock ("Junior Preferred Stock") and reserved such shares for issuance upon exercise of the Preferred Share Purchase Rights. At February 1, 1998 and February 2, 1997, no shares of Junior Preferred Stock were issued or outstanding.

NOTE 7—Common Stock

Authorized Shares—During fiscal 1998, the Company's stockholders approved an increase in the number of authorized shares of common stock to one billion from three hundred million at the end of fiscal 1997.

Stock Split—On each of March 6, 1998 and July 25, 1997, the Company effected a two-for-one common stock split by paying a 100% stock dividend to stockholders of record as of February 27, 1998 and July 18, 1997, respectively. All share and per share information has been retroactively restated in the Consolidated Financial Statements to reflect these stock splits.

Stock Repurchase Program—The Board of Directors has authorized the Company to repurchase up to 250 million shares of its common stock in open market or private transactions. During fiscal 1998 and fiscal 1997, the Company repurchased 69 million and 81 million shares of its common stock, respectively, for an aggregate cost of $1.0 billion and $503 million, respectively. The Company utilizes equity instrument contracts to facilitate its repurchase of common stock. At February 1, 1998 and February 2, 1997, the Company held equity instrument contracts that relate to the purchase of 50 million and 36 million shares of common stock, respectively, at an average cost of $44 and $9 per share, respectively. Additionally, at February 1, 1998 and February 2, 1997, the Company has sold put obligations covering 55 million and 34 million shares, respectively, at an average exercise price of $39 and $8, respectively. The equity instruments are exercisable only at expiration, with the expiration dates ranging from the first quarter of fiscal 1999 through the third quarter of fiscal 2000.

At February 2, 1997, certain outstanding put obligations contained net cash settlement or physical settlement terms thus resulting in a reclassification of the maximum potential repurchase obligation of $279 million from stockholders' equity to put warrants. The outstanding put options at February 1, 1998 permitted net-share settlement at the Company's option and, therefore, did not result in a put warrant liability on the balance sheet. The equity instruments did not have a material dilutive effect on earnings per common share for fiscal 1998 or fiscal 1997.

NOTE 8—Benefit Plans

Incentive and Employee Stock Purchase Plans—The Dell Computer Corporation Incentive Plan (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.

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 vests pro-rata at each option anniversary date over a five-year period. 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:

	Fiscal Year Ended					
	February 1, 1998		*February 2, 1997*		*January 28, 1996*	
(share data in millions)	*Number Of Shares*	*Weighted Average Exercise Price*	*Number Of Shares*	*Weighted Average Exercise Price*	*Number Of Shares*	*Weighted Average Exercise Price*
Outstanding at beginning of year	113	$ 3.89	94	$ 2.10	90	$ 1.13
Granted	22	$ 27.21	43	$ 6.58	32	$ 3.91
Canceled	(5)	$ 6.19	(7)	$ 2.34	(8)	$ 1.02
Exercised	(20)	$ 3.02	(17)	$ 1.50	(20)	$ 1.05
Outstanding at end of year	110	$ 8.99	113	$ 3.89	94	$ 2.10
Exercisable at year-end	25	$ 11.90	19	$ 1.81	19	$ 1.30

The following is additional information relating to options outstanding as of February 1, 1998:

	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)					
$0.01-$1.99	28	$ 1.16	5.8	12	$ 1.38
$2.00-$4.99	27	$ 3.61	7.5	7	$ 3.47
$5.00-$9.99	27	$ 6.16	8.3	4	$ 6.18
$10.00-$19.99	14	$ 14.08	8.9	2	$ 11.24
$20.00-$50.50	14	$ 36.00	9.4	—	$ —
	110			25	

During fiscal 1998, 1997 and 1996 the Company granted 1 million shares, 3 million shares and 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 and restrictions may not extend more than ten years from the date of grant. The Company records unearned compensation 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 10 million, 29 million and 68 million shares of common stock available for future grants under the Incentive Plan at February 1, 1998, February 2, 1997, and January 28, 1996, respectively.

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 13 million shares at February 1, 1998, 15 million shares at February 2, 1997, and 19 million shares at January 28, 1996. Shares issued under this plan were 2 million shares in fiscal 1998, 3 million shares in fiscal 1997 and 3 million shares in fiscal 1996.

The weighted average fair value of stock options at date of grant was $16.26, $3.73, and $2.22 per option for options granted during fiscal years 1998, 1997, and 1996, respectively. Additionally, the weighted average fair value of the purchase rights under the employee stock purchase plan granted in fiscal years 1998, 1997, and 1996 was $6.11, $2.04, and $1.01 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		
	February 1, 1998	*February 2,1997*	*January 28, 1996*
Expected term:			
Stock options	5 years	5 years	5 years
Employee stock purchase plan	6 months	6 months	6 months
Interest rate	6.28%	6.40%	6.20%
Volatility	54.92%	56.54%	57.36%
Dividends	0%	0%	0%

Had the Company accounted for its stock option and stock purchase plans by recording compensation expense based on the fair value at the grant date on a straight line basis over the vesting period, stock-based compensation costs would have reduced pretax income by $100 million ($69 million, net of taxes), $22 million ($16 million, net of taxes) and $8 million ($6 million, net of taxes) in fiscal 1998, 1997 and 1996, respectively. The pro forma effect on diluted earnings per common share would have been a reduction of $0.09, $0.02 and $0.01 for fiscal years 1998, 1997 and 1996, respectively. The pro forma effect on basic earnings per common share would have been a reduction of $0.11, $0.02 and $0.01 for fiscal years 1998, 1997 and 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. During each of fiscal 1998, 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 years 1997, 1996 and 1995, respectively. The Company's matching and discretionary contributions during fiscal years 1998, 1997 and 1996 were $20 million, $13 million and $10 million, respectively.

NOTE 9—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 eight-thousandth of a share of Junior Preferred Stock at an exercise price of $225 per one-thousandth of a share.

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 10—Commitments, Contingencies and Certain Concentrations

Lease Commitments—During fiscal 1998, the Company entered into a master lease facility ("Facility"), which provides for the ability to lease certain real property, buildings and equipment to be constructed or acquired. The lessor has agreed to fund up to $227 million under this Facility. Rent obligations for the buildings commence on various dates.

The lease has an initial term of five years with an option to renew for two successive years, subject to certain conditions. The Company may, at its option, purchase the buildings during or at the end of the lease term for 100% of the then outstanding amount expended by the lessor to construct the buildings. If the Company does not exercise the purchase option, the Company will guarantee a residual value of the buildings as determined by the agreement (approximately $36 million at February 1, 1998).

The Company leases other property and equipment, manufacturing facilities and office space under noncancelable leases. Certain leases obligate the Company to pay taxes, maintenance and repair costs.

Future minimum lease payments under all noncancelable leases as of February 1, 1998 are as follows: $21 million in 1999; $19 million in 2000; $16 million in 2001; $9 million in 2002; $7 million in 2003; and $29 million thereafter. Rent expense totaled $36 million, $33 million and $22 million for the fiscal years ended 1998, 1997 and 1996, respectively.

Legal Matters—The Company is subject to various legal proceedings and claims arising in the ordinary course of business. The Company's management does not expect that the outcome in any of these legal proceedings, individually or collectively, will have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

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 nonperformance by any of the counterparties.

The Company's marketable securities are placed with high quality financial institutions and other companies, and the Company 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 has business activities with large corporate, government, medical and education customers, small-to-medium businesses and individuals and value-added resellers. Its receivables from such parties are well diversified.

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 affect operating results adversely.

NOTE 11—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 the Americas' operating results and identifiable assets are in the United States. Transfers between geographic areas are recorded using internal transfer prices set by the Company.

	Fiscal Year 1998				
(in millions)	*Americas*	*Europe*	*Asia-Pacific and Japan*	*Eliminations*	*Consolidated*
Sales to unaffiliated customers	$ 8,531	$ 2,956	$ 840	$ —	$ 12,327
Transfers between geographic areas	67	17	—	(84)	—
Total sales	$ 8,598	$ 2,973	$ 840	$ (84)	$ 12,327
Operating income	$ 1,152	$ 255	$ 33	$ —	$ 1,440
Corporate expenses					(124)
Total operating income					$ 1,316
Identifiable assets	$ 1,363	$ 605	$ 172	$ —	$ 2,140
General corporate assets					2,128
Total assets					$ 4,268

	Fiscal Year 1997				
(in millions)	*Americas*	*Europe*	*Asia-Pacific and Japan*	*Eliminations*	*Consolidated*
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					(82)
Total operating income					714
Identifiable assets	$ 903	$ 390	$ 125	$ —	$ 1,418
General corporate assets					1,575
Total assets					$ 2,993

	Fiscal Year 1996				
(in millions)	*Americas*	*Europe*	*Asia-Pacific and Japan*	*Eliminations*	*Consolidated*
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					(58)
Total operating income					377
Identifiable assets	$ 867	$ 409	$ 123	$ —	$ 1,399
General corporate assets					749
Total assets					$ 2,148

NOTE 12—Supplemental Consolidated Financial Information

(in millions)	*February 1, 1998*	*February 2, 1997*
Supplemental Consolidated Statement of Financial Position Information		
Accounts receivable:		
Gross accounts receivable	$ 1,514	$ 934
Allowance for doubtful accounts	(28)	(31)
	$ 1,486	$ 903
Inventories:		
Production materials	$ 189	$ 223
Work-in-process and finished goods	44	28
	$ 233	$ 251
Property, plant and equipment:		
Land and buildings	$ 137	$ 133
Computer equipment	135	104
Office furniture and fixtures	45	32
Machinery and other equipment	126	59
Leasehold improvements	66	46
Total property, plant and equipment	509	374
Accumulated depreciation and amortization	(167)	(139)
	$ 342	$ 235
Accrued and other liabilities:		
Accrued compensation	$ 236	$ 113
Deferred revenue on warranty contracts	193	126
Book overdrafts	146	27
Accrued warranty costs	139	111
Taxes other than income taxes	122	74
Other	218	167
	$ 1,054	$ 618

(in millions)	Fiscal Year Ended February 1, 1998	February 2, 1997	January 28, 1996
Supplemental Consolidated Statement of Income Information			
Research, development and engineering expenses:			
Research and development expenses	$ 145	$ 88	$ 62
Engineering expenses	59	38	33
	$ 204	$ 126	$ 95
Financing and other:			
Interest expense	$ (3)	$ (7)	$ (15)
Investment and other income, net	55	40	21
	$ 52	$ 33	$ 6
Supplemental Consolidated Statement of Cash Flows Information			
Changes in operating working capital accounts:			
Accounts receivable, net	$ (638)	$ (200)	$ (196)
Inventories	16	177	(138)
Accounts payable	638	581	59
Accrued and other liabilities	644	141	126
Other, net	(131)	(40)	(46)
	$ 529	$ 659	$ (195)
Supplemental cash flow information:			
Income taxes paid	$ 274	$ 178	$ 117
Interest paid	$ 3	$ 12	$ 17

NOTE 13—Unaudited Quarterly Results

The following tables contain selected unaudited Consolidated Statement of Income and stock price data for each quarter of fiscal 1998 and 1997.

(in millions, except per share data)	Fiscal Year 1998 4th Quarter	3rd Quarter	2nd Quarter	1st Quarter
Net revenues	$ 3,737	$ 3,188	$ 2,814	$ 2,588
Gross margin	$ 822	$ 718	$ 624	$ 558
Income before extraordinary loss	$ 285	$ 248	$ 214	$ 198
Net income	$ 285	$ 248	$ 214	$ 198
Income before extraordinary loss per common share(a):				
Basic	$ 0.44	$ 0.38	$ 0.32	$ 0.29
Diluted	$ 0.40	$ 0.34	$ 0.29	$ 0.27
Weighted average shares outstanding(a):				
Basic	641	653	663	675
Diluted	706	721	729	734
Stock sales prices per share(a):				
High	$ 50 17/32	$ 51 15/16	$ 43 3/8	$ 23
Low	$ 35	$ 36 1/2	$ 22 1/8	$ 14 31/32

(in millions, except per share data)	*Fiscal Year 1997*			
	4th Quarter	*3rd Quarter*	*2nd Quarter*	*1st Quarter*
Net revenues	$ 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):				
Basic(b)	$ 0.28	$ 0.22	$ 0.15	$ 0.11
Diluted(c)	$ 0.25	$ 0.20	$ 0.14	$ 0.10
Weighted average shares outstanding(a):				
Basic	673	700	716	727
Diluted	744	763	783	783
Stock sales prices per share(a):				
High	$ 18 3/32	$ 11 3/32	$ 7 5/32	$ 5 27/32
Low	$ 9 29/64	$ 6 33/64	$ 5 3/64	$ 3 5/16

(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 March 1998 and July 1997.

(b) Excludes extraordinary loss of $0.01 and $0.01 basic earnings per common share for the third and second quarter, respectively, of fiscal 1997.

(c) Excludes extraordinary loss of $0.01 and $0.01 diluted earnings per common share for the third and second quarter, respectively, of fiscal 1997.

NOTE 14—Subsequent Event

In March 1998, the Company filed a registration statement with the U.S. Securities and Exchange Commission related to $500 million of debt securities. Presently, no securities under this registration are issued or outstanding.

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 stockholders' equity present fairly, in all material respects, the financial position of Dell Computer Corporation and its subsidiaries at February 1, 1998 and February 2, 1997, and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 1, 1998, 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 upon 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 included 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 16, 1998

Dell Computer Corporation Senior Management

Board of Directors

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

Donald J. Carty
Chairman of the Board,
President and
Chief Executive Officer,
AMR Corporation
and American Airlines Inc.
Committees: Finance, Audit, Nominating

Paul O. Hirschbiel Jr.
Consultant,
Cornerstone Equity Investors L.L.C.
Finance, Compensation

Michael H. Jordan
Chairman of the Board and
Chief Executive Officer,
CBS Corporation
Compensation, Nominating

Thomas W. Luce III
Of Counsel,
Hughes & Luce L.L.P.
Finance

Klaus S. Luft
Owner and President,
MATCH-Market Access for
Technology Services GmbH,
and Vice Chairman/
International Advisor,
Goldman Sachs Europe Limited
Finance, Audit

Claudine B. Malone
President,
Financial & Management
Consulting Inc.
Audit

Alex J. Mandl
Chairman of the Board and
Chief Executive Officer,
Teligent Inc.
Compensation

Michael A. Miles
Former Chairman of the Board
and Chief Executive Officer,
Philip Morris Companies Inc.
Compensation, Nominating

Executive Officers

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

Morton L. Topfer
Vice Chairman

Kevin B. Rollins
Vice Chairman

Paul D. Bell
Vice President,
Americas Home and Small Business Group

G. Carl Everett Jr.
Senior Vice President,
Personal Systems Group

Jan Gesmar-Larsen
Senior Vice President and President,
Europe, Middle East and Africa

Thomas B. Green
Senior Vice President,
Law and Administration,
and Secretary

Jerome N. Gregoire
Vice President and
Chief Information Officer

Phillip E. Kelly
Vice President and President,
Asia-Pacific Group

Michael D. Lambert
Senior Vice President,
Enterprise Systems Group

Joseph A. Marengi
Senior Vice President,
Americas Relationship Group

D. Keith Maxwell
Vice President,
Worldwide Operations Group

Thomas J. Meredith
Senior Vice President and
Chief Financial Officer

Rosendo G. Parra
Vice President, Americas Public and
International Group

Charles H. Saunders
Vice President and President, Dell Japan

James M. Schneider
Vice President, Finance

Alex C. Smith
Vice President and Treasurer

Other Corporate Information

Independent Accountants

Price Waterhouse LLP
Austin, Texas

Investor Data

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 13 of Consolidated Financial Statements. On March 31, 1998, there were about 8,800 holders of record of the company's common stock, and more than 300,000 (estimated) beneficial holders.

Answers to most questions about Dell's products, operations, financial results and history can be found at the company's World Wide Web site at www.dell.com. For other financial data, contact:

Investor Relations
Dell Computer Corporation
One Dell Way
Round Rock, TX 78682-2222
(512) 728-7800

Copies of the Dell annual report on Form 10-K (without exhibits) for the fiscal year ended Feb. 1, 1998, are available without charge.

Information about about stock certificates, changing an address, consolidating accounts, transferring ownership or other stock matters can be obtained from:

American Stock Transfer and Trust Company
40 Wall St.
New York, NY 10005
(800) 937-5449
New York residents: (718) 921-8200

Dell has never paid cash dividends on its common stock. The company intends to retain earnings for use in its business and does not anticipate paying any cash dividends on common stock for at least the next 12 months.

Dell's 1998 annual shareholders meeting will be held at 9:00 a.m. on Friday, July 17, at the Austin Convention Center, 500 E. Cesar Chavez St., Austin, Texas.

Regional Headquarters

AMERICAS
Dell Computer Corporation
One Dell Way
Round Rock, TX 78682
(512) 338-4400, (800) 289-3355
Fax: (512) 728-3653

JAPAN
Dell Computer K.K.
Solid Square East Tower 20F
580 Horikawa-cho, Saiwai-ku
Kawasaki, Kanagawa 210-0913
Japan
81-44-556-4300
Fax: 81-44-556-3205

EUROPE, MIDDLE EAST AND AFRICA
Dell Computer Corporation
Berkshire Court, Western Rd.
Bracknell, Berkshire
United Kingdom RG12 1RE
44-1344-748-000
Fax: 44-1344-748-836

ASIA-PACIFIC
Dell Computer Asia Ltd
1001 Stanhope House
734-738 King's Rd.
Quarry Bay, Hong Kong
852-2508-0500
Fax: 852-2887-2040

Dell and the Environment

While computers benefit society, Dell is constantly seeking innovative ways to minimize their effect on the environment. Among fiscal-1998 environmental accomplishments, Dell reduced its use of packaging in Europe by one-half; completed an upgrade of lighting in all company facilities in the Austin, Texas, area; and recycled 95 percent of waste generated by a new Americas manufacturing plant. Those and other efforts by Dell earned the company recognition from the U.S. Environmental Protection Agency and the Irish Power Supply Industry; the "Blue Angel" label from the German Federal Environmental Agency for three new computer models; Swedish "TCO '95" environmental certification, the first ever for computer products; and the "Best Workplace Recycling Award" from the Recycling Coalition of Texas.

Dell's 1998 annual report can be found on the World Wide Web at www.dell.com/corporate/investor/

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 component 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 U.S. Securities and Exchange Commission.

Design: Rigsby/Van Dyke Photography: Victor John Penner Printing: Williamson Printing Corporation