**DELL INCORPORATED**

**Moderator: Lynn Tyson**
**May 28, 2009**
**4:00 p.m. CT**

Operator: Good afternoon ladies and gentlemen this is the operator. Today's conference call is scheduled to begin momentarily. Until that time your lines will again me placed on music hold. Thank you for your patience.

Good afternoon and welcome to the Dell, Inc. First Quarter Fiscal Year 2010 Earnings Conference Call. I'd like to inform all participants this call is being recorded at the request of Dell.

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Later we will conduct a question and answer session. If you have a question, simply press star then 1 on your telephone key pad at any time during the presentation. I'd like to turn the call over to Ms. Lynn A. Tyson, Vice President of Investor Relations. Ms. Tyson you may begin.

Lynn Tyson: Thank you. With me today are Chairman and CEO, Michael Dell and Senior Vice President and CFO Brian Gladden. Brian will review our first quarter results and then Michael will follow with his prospectus on our strategy.

We just posted information on our IR site at www.dell.com including a V-log with Brian on our blog Dellshares, as well as our web deck. Please review both of these to get additional perspectives on our results and long-term strategy.

This quarter we finalized the globalization of our commercial business into three business units – large enterprise, public, and small and medium business. Our results this quarter will reflect this new structure and so instead of a revenue and operating income by region, we are reporting it by customer segment.

We've also made other changes to our external reporting which are outlined in a blog post on dellshares dated May 15. I strongly encourage you to read this post to learn more about our new business unit structure, changes we've made to our reporting of services and other product categories, and also how we are reporting business unit operating income.

The financial statements that accompany this quarter's earnings release have our fiscal 2009 quarterly results restated for the lines that are impacted by the changes we made this quarter.

Our investor relations activities in Q2 will be focused on our annual analyst meeting here in Austin, Texas. The event will begin the evening of July 13, with a reception hosted by our full executive leadership team and select business leaders. The meeting on July 14 will feature presentations by Michael, Brian and each of our business unit general managers.

Finally, I'd like to remind you that all the comparisons made on this call are year-over-year unless otherwise stated and that all statements made during this call that relate to future results and events are forward-looking statements that are based on our current expectations.

Actual results could differ materially from those projected in the forward-looking statements because of a number of risks and uncertainties which are discussed in our annual and quarterly SEC filings and in the cautionary statement contained in our press release and on our website.

Now I'll turn it over to Brian.

Brian Gladden: Thanks Lynn. We continued to execute against the key transformational priorities we've laid out for you over the past few quarters – delivering great technology, service and value to our customers, making strong progress towards a leading cost position and driving discipline working capital management.

We're pleased with our execution on these key activities and remain focused on the continued transformation of the company. We have much more to do. Consistent with the second half of our last fiscal year, in our first quarter we again delivered stable profitability and improved our liquidity.

We've also made progress in expanding our portfolio, products and services to better serve our customers. So let's take a look at the P&L and key performance metrics for the first quarter, which you can find on Page 6 and 7 of the Web deck.

Revenue was down 23 percent to $12.3 billion. The revenue weakness was primarily driven by softer demand in the commercial markets and our strategy to protect profitability in this environment. Revenue was down 8 percent sequentially versus our fourth quarter.

Gross margin was 17.6 percent for the quarter and excluding the impact of incurred organizational effectiveness costs was 18.1 percent, reflecting the continued progress we're making reducing cost of goods sold, including optimizing our manufacturing and logistics networks.

Operating expense was down 15 percent and was 14.2 percent as a percentage of revenue. Organizational effectiveness expense or OE was $185 million or 9 cents after tax, split about 1/3 in cost of goods of sold and 2/3 in our OpEx number.

After the earnings call we often get questions about amortization of intangibles and performance-based compensation expense. So this quarter I'm adding these items to our formal talking points.

The intangibles amortization was $39 million and primarily hit our COGS line. Expense related to our broad performance-based long-term compensation plan which is primarily equity was $76 million split roughly 15 percent in COGS and 85 percent in OpEx.

While we still see more opportunity to improve our overall cost position, we are pleased with our progress in OpEx management. Excluding the impact of costs incurred related to OE in the first quarter and OE stock option acceleration and forfeitures and reserve reversals in prior quarters, OpEx was down $350 million or 18 percent year-over-year and $70 million or 4 percent sequentially.

Our tax rate for the first quarter was 29.6 percent. It's driven by higher profits in the U.S., including a higher mix of enterprise products and services plus higher incurred OE costs that are in Europe.

Taking all this into account, our reported earnings per share for the quarter was 15 cents. Referring to Slides 8 and 9 in the Web deck, we had another good quarter managing our working capital.

We generated $761 million in cash flow from operations with improvements in payables and receivables. Our cash conversion cycle improved three days to -28 days in the quarter. We continue to believe that over time we can generate cash flow from operations in excess of net income.

Turning to the balance sheet on Slide 10, with the current uncertainty in credit markets and the rapidly changing IT competitive landscape, we'll continue to protect our liquidity to ensure flexibility for organic and inorganic opportunities.

We ended the quarter with $10.7 billion in cash and investments. We have a $1.5 billion commercial paper facility in place, of which $100 million was outstanding at the quarter end. And after improvements in the credit markets in April, we issued $500 million in five year notes.

Finally, we have additional capacity associated with the debt shelf registration we filed in Q4 last year and we'll continue to monitor credit markets for possible favorable entry points.

I'd like to spend a few minutes on the status of our COGS cost initiatives, which will continue to be a fuel for our growth going forward. As you may recall in COGS we have two major buckets of savings – design-to-value and the optimization of our manufacturing and logistics supply chain.

These two activities make up a majority of our $4 billion in targeted cost savings opportunities. In design-to-value, 33 percent of our business client and 57 percent of our consumer platforms have been redesigned and cost optimized which now equates to more than 50 percent of our total volume.

In aggregate, we reduced our average cost per unit by 2 percent sequentially and 10 percent year-over-year. These costs reductions are incremental to the typical component cost reductions we generally experience in our industry. I should point out that we're still early in this process and we expect more benefits here.

In manufacturing and logistics our goal is to optimize our global supply chain for service and cost by creating efficient supply chain models to most effectively serve our different customers around the world.

For example our move to more contract design and manufacturing with significantly lower cost assembly and logistics models for fixed configuration and retail customers is a key strategy. We are separately enhancing our configure-to-order supply chain capabilities, where custom configuration and factory integration for commercial customers are highly valued services.

As we expand our manufacturing and logistics footprint, approximately 30 percent of our volume is now going through contract manufacturers. This work which is ongoing variablizes a majority of our manufacturing and supply chain costs, provides a buffer to declining volumes and a benefit to gross margins, essentially helping us to keep margins stable over the past few quarters.

Next I'm pleased to share our business unit results today. I'd like to thank our teams for the great work in the implementation of the new organization model and specifically in getting the new segment reporting and restatements completed for the first quarter earnings cycle.

The results which you will also find on Pages 13 through 16 of the Web deck directly reflect how our general managers are running the businesses, essentially focusing on revenue operating margin and cash by segment. Let me go into a bit of detail on each unit.

Large enterprise, which represents our largest commercial accounts, had a challenging quarter with revenue down 31 percent to $3.4 billion. Demand weakness was similar in each of the major regions of the world.

On a relative basis, our largest global customers have been most conservative with their IT budgets and we expect them to be slower coming back. Despite the challenging short-term environment for this business, we continue to invest and add solutions capabilities that will drive future growth in the enterprise.

We want to selectively invest to acquire business and new accounts going forward, and we're investing to continue to build out our enterprise product and service capabilities.

Public, which services government, education and healthcare accounts was the strongest commercial segment this quarter, with revenue down 11 percent to $3.2 billion. Growth in our larger federal and national accounts offset weaker performance in state, provincial, local and education accounts.

Operating profit dollars were dollars were up 6 percent while operating income percent was up 150 basis points as we drove more vertical enterprise solutions and aggressively managed our OpEx.

Our small and medium business revenue was down 30 percent to $3 billion in the quarter, with IT demand strongest in Asia and softer in the Americas and EMEA. Operating income dollars were down in line with revenue driving roughly flat margin rate performance.

In our commercial businesses, our currently hardware-centric model admittedly places us in the more discretionary portion of constrained IT budgets in this environment. So we're focusing our execution on right-sizing our cost structure and investing smartly to build product, service and selling capabilities.

Going forward we'll continue to focus our teams on growth and enterprise solutions and on acquiring accounts that provide solid long-term opportunities for Dell.

We again had strong unit growth in our consumer business, with unit volume up 12 percent, with revenues down 16 percent to $2.8 billion. While the consumer unit was roughly break even at the operating income line in Q1, we're still confident in targeting 1 to 2 percent operating income percent for the year. We continue to build out our retail footprint in the consumer space and now have over 30,000 outlets on a global basis.

On a regional basis, America's revenue was down 21 percent, EMEA was down 29 percent and APJ was down 20 percent. Our total revenue from BRIC countries was down 21 percent and made up about 9 percent of our total revenue. In BRIC, China saw the mildest of declines while Russia was the most pronounced. Revenue outside the U.S. was 48 percent of our total mix.

Moving briefly to a few key product highlights, in the client space mobility units were down 5 percent and revenue was down 20 percent due to the soft demand in commercial segments and average selling price declines in consumer.

Desktop units were down 26 percent with revenue declining 34 percent. Turning to enterprise products and services, our server revenue was down 25 percent on a 28 percent decline in units. We continued the rollout of our new 11th generation servers and precision workstations and our Dell Data Centers Solutions business experienced double digit revenue in unit growth off a modest but expanding base.

Our worldwide x86 server share was down year-over-year but up 90 basis points sequentially as we solidified our number two position. Storage revenue was down 17 percent but EqualLogic revenue was up 71 percent and we launched our new PS6000 series of iSCSI storage arrays with increased performance and advanced virtualization capabilities.

Enhanced services revenue declined 8 percent to $1.2 billion. However, our support services which deliver customizable support solutions for end-users and IT professionals in Dell and non-Dell environments did extremely well. Our deferred revenue balance grew 4 percent to $5.6 billion.

Software and peripherals revenue declined 18 percent which was in line with our overall systems decline of 17 percent for the quarter.

Also in the quarter, Technology Business Research announced Dell was the top company in its inaugural Corporate Sustainability Index measuring environmental initiatives. We scored particularly well in renewable energy use, recycling and integration of the sustainability strategy into our business.

For additional information on our efforts, see Page 19 of the web deck and read our quarterly SRI blog series on Dellshares.

Before I turn it over to Michael, let me leave you with some additional perspective on the quarter and our views on demand going forward. Our direct customer relationships and tight supply chain help us to see demand signals earlier than any other company in the industry.

The first quarter started with muted demand across our commercial segments, particularly in the U.S. and Europe. The second half of the quarter was better but driven by typical seasonality. When taking the entire quarter into account, we don’t believe there’s enough momentum to call a bottom yet.

For our second quarter we expect seasonal improvements from our federal government, consumer and education businesses. But it’s also important to note that Q2 and the first part of Q3 are generally periods when we see slower demand from larger commercial customers in the U.S. and Europe.

Further out we’re confident that the vast majority of commercial customers are deferring purchases and will accelerate spending on IT to take advantage of technology-driven productivity improvements. But this uptick will be driven by a better economy and associated improvements in customer profit and tax receipts.

We expect IT spending to pick up first here in the U.S. and then across the globe. Until then, we'll continue to focus on what we can control, which is satisfying our customers, adjusting our cost structure to near-term realities of industry demand and making strategic investments to improve our company for the long-term.

Finally, we do expect to continue to absorb OE expenses this year as we align our business to improve competitiveness. Our goal continues to be to drive a balance of liquidity, profitability and growth, optimizing cash returns regardless of the macroeconomic cycle. Our disciplined execution on working capital and our ongoing cost initiatives are a big part of that.

With that I'll turn it over to Michael.

Michael Dell: Thank you Brian. Our first quarter results demonstrate that we're executing on reducing costs and delivering solid margins. Going forward we're accelerating our operating agenda priorities and intensifying our cost focus to achieve the $4 billion cost reduction objective. This is going to enable solid earnings and cash flow and create the fuel for growth.

During the first quarter, we accomplished a key structural step and our four global business units are now up and running. Large Enterprise and Public will drive us further into the data center and services, while Consumer and SMB still have substantial revenue and unit growth opportunities which can be enhanced by our cost structure initiatives.

We're preparing for what we believe will be a powerful replacement cycle with virtualization and our growing managed services capability playing a much larger role as the economy improves, and we're using a combination of organic growth, alliances and acquisitions to grow servers, storage, services and software.

For example our 8-year relationship with EMC has delivered over $10 billion in storage solutions to our customers. Our EqualLogic storage business is now four times larger than when we acquired it, delivering a scalable, virtualized solution right in the sweet spot of data center growth.

In services we've integrated several acquisitions to create a cloud-based managed service offering to proactively monitor and manage IT networks for larger customers and we're now just starting to bring this to small and medium customers in the United States, with the ProManage brand.

With the release of our 11th generation servers we've launched the Dell Management Console, dramatically improving our systems management capability along with our partner Symantec. And last month we announced an alliance with Perot Systems to delivery virtualized technology solutions for healthcare.

All of these actions together serve to shift our portfolio in the direction we want and will help us expand our operating margins with strong cash flow. It should be clear to you that we've embarked on some major transformational initiatives on the cost side and we're making good progress against these objectives.

Also important in our transformation are the shifts in the business to the data center, software and services. As we do all this, we remain committed to balancing liquidity, profitability and growth. We have many great assets and we see significant opportunities to grow and expand from here.

We're making progress but we have much more to do. You'll hear much more about all of this at our analyst meeting in July. We look forward to seeing all of you there. So now let me open it up to the operator for questions.

Operator: Ladies and gentlemen, we will now begin the question and answer portion of today's call. If you have a question, please press star 1 on your telephone key pad. You will be announced prior to asking your question.

If you would like to withdraw your question, press the pound key. One moment please for the first question. We will take our first question from Richard Gardner with Citigroup.

Richard Gardner: Thank you very much. I wanted to ask you a question regarding global SMB. You recently made an announcement – well you announced agreements with Ingram Micro and Tech Data in the United States and Europe and I'm wondering how we should think about the margins in global SMB as you ramp with these distributor partners.

In other words, should we prepared for some transitory period where margins decline in global SMB as you give more margin to the distributors and before you're able to distribute selling expenses between that effort and your existing direct effort. Thank you.

Brian Gladden: Well if you look at the business over the last several quarters, the operating margins have been relatively stable in SMB. And our intent is to manage the operating margins at a healthy level even as we're growing the business.

So I think we're pretty optimistic about the portfolio there and particularly the shift in that business. We continue to introduce new products that are really well-suited for small and medium businesses that have increasing margin. So it's a balance but I wouldn't necessarily look for margins to go down there.

Richard Gardner: OK. Michael if I could ask one follow up. There have been reports of you actually turning over customer lists for small to mid-sized business in some regions to your distribution partners.

And I'm wondering if you intend to go after that market direct or whether you're turning over customer lists not only in smaller regions but also maybe in larger markets like the U.S. and Europe. Thanks.

Michael Dell: As part of our channel programs, we engage channel partners in many ways, including providing them leads, and opportunities to expand their business with known prospects – that's a fairly standard practice as part of our channel activity, which is a very substantial one.

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

Kathryn Huberty: Thanks. Good afternoon. Michael it sounds like you believe when corporate spending returns it will be more focused on the data center than the traditional desktop, notebook business. Is that a fair characterization? And if so, how do you go about ensuring that Dell does penetrate those accounts given historically the relationships have been more on the PC side?

Michael Dell: It's kind of level-set here in the United States. I think last count we had about 37 percent share of the x86 server units, so we've got a pretty good position there. What we're seeing certainly is a big deferral of purchases among corporations.

But when we talk to them the thing I'm hearing is they're planning on a pretty big 2010 client refresh and they're planning around Windows 7. They've passed over Vista and they're planning for that now.

I think the client install base is getting pretty old in these companies and I think there will be quite a powerful cycle of upgrades in the client environment. I do think it'll be different this time.

I think they'll be very focused on newer technologies like virtualization. They'll be very focused on ROI. There'll be some new opportunities around wireless and mobility with hoteling and those sorts of things.

We've been doing some pilots with some large companies and have had some great success there. We think there are some big opportunities there. So there's absolutely a data center opportunity and we're pushing further into solutions and our enterprise sales capability.

The client installed bases in these organizations are getting quite old and the users are getting restless as the machines get to the fourth year or fifth year and at home they have a brand new product that's got the latest operating system, latest capability –that can't go on forever.

Kathryn Huberty: Got it. Thank you.

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

Toni Sacconaghi: I have a couple of questions please. The first one is, can you comment on directionally on what percentage of the way are you towards your target of $4 billion in savings? And how should we be thinking about the savings that are left on the table? Are the majority of those COGS or do you still believe you have OpEx savings remaining?

Brian Gladden: Yes Toni, from an OpEx standpoint you can look at where we are versus the last four quarters. We're probably close to an annualized benefit in OpEx of something like \$1.7-\$1.8 billion.

We have made some incremental investments in some growth programs there, so that's one area and we'll continue to drive that down as we look at this demand environment. There is more opportunity in OpEx and that continues to be a focus.

COGS is as we said last quarter, still early in the process. We're about 30 percent of the volume through contract manufacturers, about 33 percent of our business client platforms are now cost-optimized, and close to 60 percent of our consumer platforms are cost-optimized, so those things continue.

It's about 50 percent of the volume that's been cost-optimized, so again we're further ahead in OpEx and still more to do in both, but COGS will be the majority going forward.

Toni Sacconaghi: Brian if I could just follow up on the OpEx, so the \$1.7 to \$1.8 billion reduction - should we be thinking of that as part of the \$4 billion or how do we think about the fact that your revenues have obviously come down a lot.

And if you were just scaling the business beyond incremental cost cutting, your OpEx would have come down quite a bit. In fact, your OpEx is about 250 basis points higher as a percentage of revenue than it was in more normalized times three and four years ago.

So on one hand you could actually look at the OpEx and say relative to history it's a lot more out of whack than COGS is and have you really gotten any of that \$4 billion other than just scaling for volume.

So I guess the follow up question is do you actually think you're close to the end in OpEx and we should be thinking about an OpEx level that is substantially higher than what you had before and you know when we think about the $1.7 to $1.8, is that what you're counting as part of the $4 billion.

Brian Gladden: Well, part of what we did last quarter was take the commitment up from three to four and part of that was recognizing that we had to go further given the demand environment.

So there's more there. We have been making some structural changes that allow us to move back towards levels in terms of OpEx, but again we need a little bit of help as well from the revenue line to get back to historical sort of OpEx percentages.

So recognizing that in this demand environment we are going to have to do that. To be honest we're running at more than $4 billion internally because we know we've got to do that.

Toni Sacconaghi: And then just related to that – how do you think about, it's actually as you pointed out, your gross margins have held up remarkably well despite volume pressures recently and that's probably a signal that you are improving the COGS.

When you do your own kind of analysis a 23 percent decline in revenue year-over-year all else being equal, what kind of negative pressure does that put on gross margins and therefore we can infer how much you're making up by better pricing and better cost cutting.

But if we just looked at a 23 percent decline in revenue all else being equal, what kind of negative gross margin pressure does that put on Dell's business model?

Brian Gladden: Yes, Toni clearly there are some elements of our manufacturing cost structure that are fixed versus variable. We continue to try and variablize as much as we can of that cost. That's a major priority for us.

Without venturing a specific number a lot of the work we're doing on the COGS line has allowed us to really cushion that margin rate in this environment when we see significant volume declines.

And the other thing that's worth noting is our exposure to some of the higher margin markets is better than some of our competitors in terms of not as big of a consumer business, not as big in netbooks, bigger in the enterprise. Those things all help us I think to have somewhat a cushion on that gross margin line.

Toni Sacconaghi: Thank you.

Operator: Our next question comes from Benjamin Reitzes of Barclays Capital.

Benjamin Reitzes: So a couple. You guys are unique in that you report - May is almost over. You said that you saw things get a little better but it was only due to seasonality at the end of the quarter. Any thoughts on May and as you go into the summer with potential for Europe to weaken – and then I have a follow up.

Brian Gladden: Yes Ben, we don't see anything different in May in terms of the dynamics we saw for the first quarter, so there's no real improvement.

Benjamin Reitzes: OK. And just on your cash flow statement, can you reconcile for us what's going on the other assets line. Again, you have some FX related cash flow in there and can you just talk about what that is and how it nets out over the course of quarters and if that's a positive benefit going forward?

And then the other cash flow question is can you update us on where you are on bringing your off balance sheet debt – I believe it's around $1.5 billion – back on balance sheet. Was that pace slowed during the quarter? And how does that take place over the coming quarters? Thanks.

Brian Gladden: Overall cash flow is pretty straightforward, Ben. We benefited largely from improved working capital management in the quarter. There is a change in other current assets.

That is a net benefit to cash in the quarter, but there's some time effects in there and there's obviously some working capital related elements within that other current assets, like reduction in in-transit shipments and collections of vendor receivables. Those together – working capital reductions generated about $300 million to the cash and are in that other current assets.

The FX contracts, it's a similar conversation. We've been talking about this since the third quarter, when we talked about those settlements and how they were going to play out for us. There's about 250 that hit in the quarter that shows up as a positive in that other current assets line.

Obviously there were offsets to that and if you look at it – the way to think about it is you look at it over a rolling 12 months cash flow measurement. It nets down to zero. So that is a round trip basically in terms of the impact on our cash flow, and we were penalized earlier for that. Now we get a benefit of those FX contracts settle.

What was your second question, Ben?

Benjamin Reitzes: Just regarding your off balance sheet debt. You and I have talked before about roughly a $1.5 billion number that may need to be brought back on balance sheet, which would have a negative cash impact and I'm just wondering what the pace of that is and how much of that needs to take place in future quarters that may impact cash flow or not.

Brian Gladden: Yes – we've talked about the conduits. They're not really off balance sheet, but we continue to in some cases have some impact as we unwind those and have to fund those.

We had a small amount in the quarter. We'll continue to do that over the next few quarters. We also, then continue to look at the markets and look for opportunities to reconstruct those conduits with other parties. So I'm not going to give you specifics there. I don't necessarily know.

Benjamin Reitzes: OK. Thanks a lot.

Operator: Our next question comes from Bill Shope with Credit Suisse.

Bill Shope: Into the 2010 client refresh comments you made earlier, do you have any statistics on the average age of your installed bases versus sort of historical levels that would help us understand the type of pinned up demand we may be looking at in that type of refresh cycle?

Michael Dell: Yes – the information that we have would say that it's kind of moved out in the nine month to a year range, so it's a pretty big push out. And that would say if you get the right combination of new product cycle and Intel has got a very interesting one coming, Microsoft has got a very interesting one coming.

There are a number of other factors that could ignite a powerful refresh cycle and that's what we're planning for.

Bill Shope: OK. Great. And then on component pricing, can you give us a sense of where you're seeing trends go there and how you're managing that and how we should think about that in fact to your margin performance beyond this quarter?

Brian Gladden: Yes Bill we would say that it's a relatively mixed environment. There are some components right now where we're seeing some pressure. I think panels is a good example. Processors is a good example.

But there are others that continue to be deflationary and we would obviously benefit from those. So relative to historical, probably not as favorable for us over the next couple of quarters, but continues to be deflation in aggregate.

Bill Shope: And the last question on that, do you have any strategic inventory in those challenged areas?

Brian Gladden: Not enough to be – not substantial amounts.

Bill Shope: OK. Perfect. Thanks guys.

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

Mark Moskowitz: Putting in two quick questions here. One, Brian or Michael can you talk a little more about the consumer profile. Clearly your penetration in the retail outlets is moving up and favorable and your unit trends are pretty handsome as well.

But the revenue though seems to be in stark contrast. Can you just talk about the quality of the units right now? Is this more of a Dell issue or is this more of a market issue?

Michael Dell: Well the consumer average selling prices are down considerably. You can see this in some of our other competitors who had even larger drops in average selling price than Dell did.

But clearly we're going through a pretty major change in the consumer business. We're committed to running the business in a 1 to 2 percent operating range and we're confident that we can improve the margins over time.

Mark Moskowitz: And then the second question kind of building on Katy's question earlier just as far as that your confidence around really cementing Dell's relevance in the data center and the enterprise replacement cycle, Michael.

I just want to get a sense, given that your cost transformation plans seem to be on track or a little ahead of planned here, where or how should investors kind of think about Dell moving forward with more of a transformation on the model side in the terms of inorganic opportunities to really cement your presence in the enterprise?

From the services play or from the enterprise hardware play – because it seems like we're in a situation here like Brian said its too early to call a bottom.

Wouldn't this be a good opportunity to take advantage of your cash position, make an acquisition and take advantage of the downturn to kind of digest a big acquisition so you are stronger coming out of the downturn?

Brian Gladden: Well, we are piling up cash and we think the cash flow is going to continue to be pretty powerful for the foreseeable future, feeling pretty good about the operational improvements in working cash flow that are occurring.

The assets that we have are strong ones and give us a great position to be able to extend as you're suggesting. Asset prices are getting pretty attractive and certainly we're looking at how we're going to expand inorganically. In the last couple of years we entered this process, we previously hadn't really done acquisitions and in the last couple of years have done about ten transactions, only one of them at any sort of size that would get anyone's attention. That was the EqualLogic transaction. That business is now roughly four times larger than when we started and it's significantly more profitable. It's a very profitable, fast growing part of our business. So yes we will be looking in that direction and stay tuned.

Mark Moskowitz: Thank you.

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

Maynard Um: Can you just maybe talk about where you are in the build out of your indirect channel and maybe if it's easier kind of what any of that you think you're in? And then maybe related to that can you talk about the impact to gross margins as you presumably make a bigger push into the indirect channel.

You know it doesn't look like there's a tie between the consumer mixed shift and your pro forma gross margins for the product side. So can you just update us on your thoughts on what the impact to gross margins might be and whether programs like design-to-value and moves to contract manufacturing will offset that. Thanks.

Michael Dell: Sure, again consistent with our kind of profit goals in consumer, which I mentioned earlier –that kind of outward targeting the changes in the supply chain and in the product designs – if you said well how many available outlets are there, it's probably three or four times the number we're in today.

But it would be true that we've sort of gone to the more attractive ones earlier, but it would also be true that we're still growing within the ones that we're in. So you know we still have a long way to grow and to grow in consumer you know retail expansion.

On the commercial side I think the interesting thing here is that the kind of operating margins are very consistent with the direct business, and this has to do with the shift in mix and the partners really bringing the Dell products you know that tend to be more enterprise focused into new customer footprint that we haven't been in before.

And so that's the focus on the commercial side. We've got about 40,000 partners now globally. We launched the Partner Direct Program at the end of 2007 and we're seeing our partnerships grow and expand with the growing group of solution partners.

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

Shannon Cross: Thank you. A couple of questions, Brian can you just talk a little bit about on the cash flow side you discussed sort of what happened this quarter, but can you give us some idea of what we should be thinking about over the next few quarters in terms of puts and takes in cash flow – maybe thinking back year-over-year – in third quarter you had the FX, but things we should just keep in mind and then I had a follow up.

Michael Dell: Yes it's going to have a lot to do with the top line in terms of how that plays out with working capital. So that's something that you can model out and then play around with the sensitivity. If we see growth with a negative cash conversion cycle in the second half of the year, we should see pretty powerful cash flow return.

We're going to continue to work all of the details of working capital, all the line items there, I think we can hang on to this sort of a cash conversion cycle in this environment and when growth returns, it'll get better.

So in terms of FX and other moves, don't expect anything as dramatic - a little hard to predict where the currencies go and with the dollar going the other way, we could expect a little bit of timing impact there, but nothing dramatic in terms of the outlook right now.

Shannon Cross: OK, thanks. And then, Michael, a question just with regard to emerging markets. You know Lenovo has pulled back in India. People have talked, including you, about strength in China. Just kind of curious about how you're thinking about where to put resources, how much to focus on some of these market places and how you sort of see the competitive landscape within the emerging markets.

Michael Dell: Well I'd say the word that comes to mind is attack. We're on the attack in the BRIC countries and we're going to grow there. We see a lot of opportunity to grow in all those countries and I'm pretty happy with our progress in the core BRIC. When we get to kind of the next 10 or next 15, that's an area of increasing attention for us. We've done better in China and India and Brazil than some of the others, but we still see big opportunity there and would view ourselves as a consolidator in those new markets.

Operator: Our next question comes from David Bailey with Goldman Sachs.

David Bailey: Great. Thank you very much. Just a couple of questions please. Could you comment on any impact you expect to see in the blade server market as Cisco enters it? And more broadly, do you think it's important to have products that combine functionality, like servers networking in a single product?

Michael Dell: Let's remember that the part of the market that has gotten a lot of attention recently is actually not a large part of the overall opportunity. In the really large data centers they tend to look very, very different from these full stack solutions. They're – and we have a lot of experience there - having sold to a very high percentage of the really mega scale data centers. You don't see what I'll call proprietary networking approaches inside those data centers. You see very, very simplified networks and multi-tenant applications, using large volumes of our servers and storage.

And if I had to guess what the data center of the future looks like in five years, I actually think it's more like that. So I think some of these vendors are hanging on to the way of the past and when we talk to customers, sure there's an interest in having a fully integrated solution and they see some advantages and accountability there, but it's also an incredibly expensive approach and it's sort a throwback to what IT was 25 years ago. It's a lock-in and we don't see huge traction there, so we can't underestimate the significance of these moves by other companies, but there are all sorts of counterbalancing effects there that are likely to occur that as new alliances get formed and customers look to where they're actually gettingthe best value.

David Bailey: OK and then switching over to DFS, it looks like the charts might be from last quarter and I was wondering if you could give us an update on the originations year over year, as well as the loss and delinquency percentages.

Brian Gladden: I think the charts are updated, aren't they?

Lynn Tyson: Yes.

Brian Gladden: Originations are down in the first quarter, but that's the typical seasonality that we have with the strength in the consumer business in the fourth quarter.

David Bailey: On a year over year basis?

Brian Gladden: Sequentially down. On a year over year basis they're similar. We can get back to you on that. In terms of delinquencies and losses, continues to be challenging. As we look at the portfolio itself, on the underlying quality of the new assets that we put into the portfolio, as we've begun to tighten underwriting and effectively manage the quality of the portfolio, we're seeing improvements in the performance of that portion of the portfolio.

Again you can see in this quarter 9.6 percent is where we are in terms of reserves and the delinquencies, 60-day plus are up to the 3.7 percent, so that's the latest view. We still feel comfortable with the portfolio. We feel like we're fully reserved and managing it pretty effectively, given the environment.

David Bailey: Great, thank you.

Operator: Our next question comes from Brian Alexander with Raymond James.

Brian Alexander: Clarification and a question on design to value, since it seems to be the biggest driver of cost reduction going forward. So the clarification is when you say aggregate average cost per unit is down 10 percent, is that for total units or just the units that have been optimized? In other words, are the optimized units down closer to 20 percent, given that more than 50 percent of those have been cost-optimized? And then I have a follow-up.

Brian Gladden: OK, that's taking the savings we've generated over the total shipments.

Brian Alexander: So that's total shipments, so the optimized units would be down more than that.

Brian Gladden: That's right.

Brian Alexander: OK. So how should we extrapolate the progress on cost per box reduction to the remaining 50 percent that haven't been optimized? Are they likely to see a similar savings rate as what we've seen so far or is that likely to go up or go down?

Michael Dell: It varies depending upon the individual platforms. As we've learned the techniques and apply the tools more broadly, we're moving more quickly through the process and we can get bigger benefits out. I do think we have attacked the larger individual platforms that are there, so it will take more time to work through some of the smaller ones as we execute. So it's probably likely to be pretty similar to what we've seen on the aggregate so far for the next waves.

Brian Alexander: Thank you.

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

Keith Bachman: Hi, guys; thanks. Was hoping you could talk about enhanced services some. In the past, services have been highly correlated with unit ships. Over the past couple quarters, enhanced services growth has outpaced that of the company. How should we be thinking about the potential here, particularly since the gross margins are so far about what the product side are?

Michael Dell: We're driving an attach approach, certainly, on the attach-driven services, which are significant for us. But we're also driving more of the business to managed services. We keep winning some pretty substantial client managed services, opportunities which are giving us some annuity streams and some stickiness inside these customers and again, using the assets that we acquire to shift the business in that direction.

And the infrastructure consulting side is growing as well and that's important for us as we sell more complex product solutions. So we certainly want to move more towards services and it's a big focus for our teams.

Keith Bachman: Mike, was there any metrics that you could give us in terms of where you think the attach rate is now on sales out versus where you want it to be or any metrics associated with how we should be thinking about the growth potential here?

Michael Dell: Yes. The Pro Support attach rate was about 36 percent in the first quarter, up pretty nicely from the fourth quarter and we're working hard to continue to drive more services attach and certainly the deferred services balance continues to grow even while overall revenues were down so.

Keith Bachman: Great.

Michael Dell: We're clearly pointing in this direction and as you get this upgrade cycle that we're really preparing for, our intent would be even more to move those customers from, as we've mentioned to you many times before, from product to service.

Keith Bachman: OK, thank you.

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

Scott Craig: Thanks; good afternoon. Brian, just a question on the notebook ASPs; on a year over year basis they got a little bit worse this quarter, but when you look at them, how much of that is from mix and how is netbooks playing into that and how much can be attributed to aggressive pricing, given the economic environment? And then just a quick question for Michael as well; you guys mentioned you're in 30,000 retail storefronts now; HP is at 80,000 plus. How far do you get or how close do you get to HP as you roll out this strategy and then where's the endpoint there? Thanks.

Brian Gladden: Yes. On the notebook pricing – the majority of the decline we see is really driven by mix, as we grew nicely in the quarter on netbooks off of a relatively small base, but it's starting to become a relevant piece of the consumer business and we've now got a product on the commercial side as well. But mostly mixing into lower ASP products is where – that's where a lot of the growth is right now.

Michael Dell: On the retail footprint, there are some much larger and more valuable retailers and those are the ones that we're really concentrating on. We don't necessarily want to just increase the number of doors. There are new countries where we want to do that. For example in China and India we added about 3,500 doors on a sequential basis, so pretty big change in some of the emerging countries, pointing to the comments I made earlier. So we'll be looking to do it selectively. If you take the U.S., for example, we've got some great big partners and we're driving a lot through them; don't really see the need to open a lot more doors here in the U.S.

Scott Craig: OK, thank you.

Operator: Our next question comes from Jeff Fidacaro with Susquehanna.

Jeff Fidacaro: Just going – go back to the strategy with the distributors; can you talk a little bit about the opportunity to expand into more regions now and then even offer more products? So what – in other words, what should we expect next as far as if you're happy with this initial startup in the U.S. and Canada?

Michael Dell: Well you said it. It'd be more products in more regions.

Jeff Fidacaro: Is there specific regions you would like to go into next and what is the balance of offering more products versus some of the higher margin attach of services locally for Dell?

Michael Dell: We'll look across the business and look for where we think the best opportunities are. Clearly we have a much broader product portfolio than they've started out with. We're learning how to do business with them; they're learning how to do business with us. And as we get that going we'll extend it into more regions and broader product categories. When you look at our server and storage portfolio in particular we think there are lots of opportunities to expand distribution.

Jeff Fidacaro: Great; thank you.

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

David Wong: The contract portion of your products that are made through contract manufacturing; how do you expect that percentage to change over the next few quarters? And when a product is moved to contract manufacturers, does this impact either gross margin or cash conversion cycle?

Michael Dell: We expect that to go up as we expand and continue to work to optimize our manufacturing costs. Clearly we wouldn't be doing it if we didn't think we saw benefits in terms of margin rates and we think we can manage effectively to maintain cash conversion cycles, even with this structure. So we're working hard to do that and we think that's possible.

David Wong: Great. And the other things is restructuring charges; how many more quarters do you expect to have fairly significant restructuring charges for?

Michael Dell: As we said the timing very much depends upon the decision-making process and how we move forward with our plans. And as we finalize those plans and agree on those plans we will incur those expenses in those quarters. We're not going to give you a visibility or an estimate. Again, some of that still has a lot of volatility in how it moves around and when you take those expenses.

David Wong: OK, thanks.

Michael Dell: Yes.

Operator: We'll now turn the call over to Mr. Dell for closing remarks.

Michael Dell: OK. Thank you, operator.

We are certainly making progress on our transformational activities and accelerating our operating agenda and cost initiatives. As we demonstrated in the first quarter, we've got strong cash flow and I believe Dell has a great set of assets; we significant opportunities to expand our business. While we do all this, we remain very committed to balancing liquidity, profitability and growth.

Thank you for your time today. We'll talk to all of you again soon.

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

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