**DELL INCORPORATED**

**Moderator: Rob Williams**
**February 18, 2010**
**4:00 p.m. CT**

Operator: Good afternoon and welcome to the Dell Incorporated Fourth Quarter Fiscal Year 2010 Earnings call. I like to inform all participants that this call is being recorded at the request of Dell.

 As a reminder Dell is also simulcasting this presentation with slides at www.Dell.com//investor. Later we will conduct a question-and-answer session.

If you have a question, simply press star then one on your telephone keypad at any time during the presentation. I'd like to turn the call over to Rob Williams, Director of Investor Relations. Mr. Williams you may begin.

Rob Williams: Thank you. With me today are Chairman and CEO Michael Dell and CFO Brian Gladden. Brian will review our Fourth Quarter results then Michael will follow with his perspective on the demand environment.

We posted on our web deck, Dell.com and we released a VLog with Brian on Dell Shares. I encourage you to view this as there is additional perspective. You've told us that you want more visibility into our enterprise solutions strategy.

As a result we will be attending the Goldman Sachs Technology Conference on February the 24th with Brian and Peter Altabef, President of Dell Services.

The following week, Brad Anderson who runs our Enterprise Product Group will be with us at the Morgan Stanley Tech Conference and will be attending the Financial Times Investing in a Sustainable Future Conference on March 24th. Also mark your calendars for our Analyst Meeting on June 23rd and 24th in Austin.

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

We assume no obligation to update our forward-looking statements. Please note that today's call will be referring to non-GAAP financial measures. These measures are reconciled to the most directly comparable GAAP measures in the slide presentation posted on the Investor Relations portion of our website at Dell.com.

Additionally, please refer to our 8-K filed today that contains a full reconciliation of all financial measures. We encourage you to review the reconciliation of non-GAAP gross margin, operating expenses, operating income, net income and earnings per share to the most directly comparable GAAP financial measures.

When we get the Q&A, please limit your questions to one with one follow-up. Now I'd like to turn it over to Brian.

Brian Gladden: Thanks Rob. First, we saw solid growth returns of the business in the quarter. We're encouraged by the underlying demand strength we're seeing across the business and particularly our commercial businesses where we saw double-digit year-over-year growth in both unit shipments and revenue.

The market demand improvements, we saw at our third quarter accelerated into our fourth quarter and we're cautiously optimistic with how our new fiscal year is starting up as well. We're also beginning to see some pretty fundamental shifts in the company's capabilities and in our financial framework.

We continue to invest to grow our enterprise business. We're seeing solid growth in servers, storage and services and with the addition of Perot Systems, our new Dell Services Business now represents 13 percent of our total company revenue. We've also made outstanding progress in improving our cost position over the past two years. We think we're well positioned to benefit from improving demand trends.

While our gross margins are very solid in the commercial business units, we did see some weakness in our overall margin rates due to the strong seasonal growth of our consumer business which also suffered from relatively weak margins during the quarter. For the full year we delivered 18.2 percent gross margins on a non-GAAP basis.

And we made fundamental improvements in our COGS structure and OpEx structure which we believe positions us well for the future. We generated nearly four billion dollars of operating cash flow which is twice the cash we delivered last year.

As we look forward, we're very confident our commercial businesses are poised for earnings growth as demand returns. And then our strategy to expand into higher margin and recurring revenue streams in business like servers, storage, software, and service solutions is progressing well.

With that let's move to the fourth quarter P&L and the key performance matrix which you'll find on pages six and seven of the posted web deck. Including our acquisition of Perot Systems, revenue in the fourth quarter was $14.9 billion, up 11 percent year-over-year and up 16 percent sequentially. Ex-Perot total revenue improved in Large Enterprise and SMB both year-over-year and sequentially.

Also without Perot our Public business experienced the normal season sequential decline but it was still up year-over-year. On a GAAP basis, our gross margins were 16.6 percent, our OpEx was 13.2 percent and our operating income was 3.4 percent. Earnings per share on a GAAP basis were 17 cents per share.

For the remainder of this discussion, I will be speaking to non-GAAP financial measures. Beginning with gross margins, the non-GAAP results was 17.4 percent driven primarily by the typically heavy mix of consumer revenue in the quarter. Additionally as we discuss coming into the quarter we also saw component cost pressures specifically DRAM across the business and we felt this most in our consumer business where we were locked into holiday retail deals in some cases with fixed pricing.

OpEx was 12.1 percent of revenue and SG&A was below 11 percent. Our total OpEx has improved as a percentage revenue but it was up sequentially on an absolute basis. As the revenue growth returned and correspondingly we increase sales compensation for our commercial sales force who executed well in the quarter.

We also invested incremental OpEx dollars to fund key growth programs as we've discussed over the course the last couple of quarters. Operating income was $798 million or 5.4 percent of revenue.

On the same basis was $3 billion and 5.6 percent of revenue for the fiscal year. Our financing and other expenses were $41 million in the quarter and our tax rate for the fourth quarter was 28.1 percent which was within the range we provided last quarter.

Earnings per share on a non-GAAP basis were 28 cents per share. Expense related to our broad performance based long-term compensation plan which is primarily equity was $107 million in the quarter, split roughly 18 percent in COGS and 82 percent in OpEx.

We had another strong operating cash quarter referring to slide eight the web deck we generated $1.3 billion in cash flow from operations which largely a function of our strong sequential growth and negative cash conversion cycle. There was lots of great work and strong execution here by the teams across the business.

Our working capital performance continues to be world-class. Our cash conversion cycle remained at negative 36 days as we absorbed the impact of our acquisition of Perot in this measure. You'll remember that on our December the 16th call we said Perot would likely impact cash conversion cycle by two to three days.

We are pleased to hold our cash conversion cycle flat given that dynamic. Both receivables and payables decrease two days to 38 days and 82 days respectively while inventory remained flat at eight days. Our days to pay are now up 15 days from last year while receivables are down four days from their peak two quarters ago.

Overall for the year our cash conversion cycle improved by 11 days which we are very pleased with. Going forward we expect our cash conversion cycle to remain in the mid-thirties through the next fiscal year.

Turn to the balance sheet on slide 10. On November the 3rd we used $4 billion to close the Perot transaction and we ended the quarter with $11.8 billion in cash and investments. Finally as part of our on-going effort to optimize our capital structure and manage our cash liquidity, we will continue to monitor the credit markets for possible, favorable entry points.

Referring to slide 11 Dell Financial Services generated $1.1 billion in new originations during the quarter. The increase in the fourth quarter originations and penetration rates primarily reflect the seasonality of the U.S. consumer business. Losses in our managed portfolio were up slightly at 8.2 percent and we remain cautious about the credit environment in fiscal year 2011.

However we are seeing stabilization in consumer and SMB delinquency and losses. Funding cost for financial assets are improving and we've launched new conduits that will be held on to the balance sheet. As a reminder in our upcoming first quarter of fiscal year 2011, we will be consolidating our two non-consolidated fixed conduits in accordance with the recent U.S. GAAP changes.

Now let's turn to our operating business results for the quarter and for the full year. I remind you that fourth quarter results now include the full quarter of

Perot Systems. The business unit results can be found on pages 14 through 17 of the web deck. First let's review our commercial business which includes Large Enterprise, Public and SMB business.

For the full year these businesses were hit the hardest by the slow down in the economy. Collectively we shipped nearly 5 million fewer units in these businesses this year than we did a year ago. Revenue in these three businesses fell 15 percent year-over-year, yet total aggregate revenue per unit on the product shipped is flat and in some cases increasing.

The combined gross margins for these businesses actually improved from the prior year. This improved performance comes partially from focus efforts on shifting our product mix to higher margin storage services and services and this is particularly true of our EqualLogic business which grew from less than $200 million in run rate revenue two years ago to more than a half a billion dollars run rate in business today.

Additionally, during this challenging cycle, these businesses reduced their OpEx by 13 percent from a year ago. So, with solid margins and good OpEx leverage, we expect to see improving profitability from the commercial business as demand returns. This dynamic is evident for the large enterprise business in the fourth quarter.

In the fourth quarter we saw unusually strong pick up in demand. Large Enterprise revenue grew 23 percent sequentially to $4.2 billion with units improving 14 percent versus the third quarter. The business delivered operating income of $281 million which is 6.7 percent of revenue or 160 basis point improvement over the previous quarter.

The revenue upside in Large Enterprise represents two quarters of sequential growth and the third quarter in a row of improving growth rates. We're optimistic about improved demand in the environment for this business. But we do believe that we did see some year end budget related activity in the fourth quarter and that it will be difficult to repeat going into the first half of the year.

In Public we see a story similar to LE. Demand for the year was much more stable with revenue only down 6 percent for the year. Here too gross margins remained stable and operating income was up 8 percent for the full year. In fact this year's operating income of $1.4 billion is the best profitability performance in the history of our Public business.

Public's fourth quarter included the impact to Perot whose customers are primarily in the public segment. For the fourth quarter revenue was $3.8 billion up 3 percent sequentially and up 16 percent year-over-year. As I mentioned before, without Perot, Public experienced a normal seasonal sequential decline so we're still up year-over-year. Operating income for public was $333 million and the rate was 8.7percent revenue.

Small and medium business revenue was $3.3 billion, up 13 percent sequentially and up 10 percent year-over-year representing two successive quarters of sequential growth. Storage, servers, and client products all experience double-digit sequential growth. Operating income was $282 million up 18 percent year-over-year and flat sequentially.

Turning to our Consumer business, Q4 revenue was $3.5 billion, up 25 percent sequentially and up 11 percent year-over-year. Consumer has done a phenomenal job building a nearly $6 billion retail business with 56,000 stores and broad global distribution over the last two years.

In addition, we now have the strongest and most exciting product portfolio in our history including Alienwear, Adamo XPS, Studio and mainstream Inspiron desktops and notebooks. Operating income for the quarter was a disappointing $9 million or two-tenths of a percent of revenue. Through the full year, consumer generated $107 million in operating income or nine-tenths of a percent of revenue.

Consumer margins were disappointing in the quarter due to aggressive market pricing dynamics and the fact that we also experience component cost pressure early in the fourth quarter when we were committed to orders for the holiday with some locked in pricing.

I'd like to reemphasize our strategic commitment to the Consumer business. Just for context, for the full year, consumer shipped over 2 million more units than last year, up almost 20 percent. This unit volume helps to drive scale with our supply base and with our cash conversion cycle contributes a lot of cash to the company.

Additionally we're taking actions to improve our Consumer business profitability. In the fourth quarter, we consolidated our Consumer and Small Business organizations under a single leadership team, including the product development teams. With this combination we see opportunities to reduce cost in G&A and product development and in costumer support while maintaining the focus in energy we need here on customers.

We'll still need to continue to run these businesses separately and report them separately as well. We're also embarking on a broad effort to simplify our client product offerings which will provide the next level of cost out in the products. We still believe our one to two percent operating income target is achievable in the near term and that we can get margins higher than that over time.

Now we can quickly discuss Perot. We're very pleased with the launch of our new Dell Services Business. Our performance there was very much in line with expectations and signings in the fourth quarter have improved significantly. More importantly, customers on both sides of the Dell and Perot relationships have embraced the acquisition and the integration is tracking well from a customer retention, financial matrix and growth perspective.

Our sales teams are targeting new opportunities and are very excited about taking new capabilities to a broader set of customers. From a growth market synergy perspective, there are approximately and specifically 200 growth synergy opportunities that we're working on which range in size from very small server monitor engagements to data center outsourcing engagements.

The biggest challenge in the near term comes from narrowing our focus to a targeted few opportunities where we can deliver high customer value. We've already seen some significant wins where customers who are either all Dell or all Perot have given us opportunities to bid on a broader set of products and services, that we couldn't do before and this is just going to continue.

On a regional basis, revenue in the Americas was up 12 percent sequentially and up 11 percent year-over-year. In EMEA revenue was up 24 percent sequentially and down 3 percent year-over-year. In APJ, revenue was up 16 percent sequentially and up 38 percent year-over-year. Our total revenue from BRIC countries was up 13 percent sequentially but up 72 percent year-over-year with China and Brazil both experiencing very strong double-digit sequential growth around 70 percent to 80 percent growth year-over-year as well. The BRIC made up 11 percent of our total revenue in the quarter and revenue from outside of the U.S. was 48 percent of our total mix.

Moving briefly to product highlights. In the client space, our mobility units were up 12 percent sequentially and revenue was up 11 percent to the increase demand in all segments while year-over-year revenue improved 16 percent. Mobility average selling prices declined by 1 percent sequentially. Desktop units were up 10 percent sequentially and revenue improved 14 percent sequentially and was down 3 percent year-over-year.

Turning to enterprise products and services, our server revenue was up 17 percent sequentially on a unit increase of 10 percent while revenue and units were up 26 percent and 17 percent year-over-year respectively. The trough in server revenue was the first quarter of this past year and we now have three consecutive quarters of server growth.

Our Data Center Solutions business where we sell servers into very large cloud computing infrastructure customers was up over 250 percent year-over-year and up 75 percent sequentially. Server revenue and large enterprise was up 47 percent year-over-year.

Our storage revenue while down 15 percent on a year-over-year basis was up 18 percent sequentially driven by strong growth in our Dell EMC and EqualLogic storage arrays. EqualLogic revenue was up 44 percent year-over-year. We continue to mix our storage revenue at a higher margin offerings and storage is now a solid driver of Dell's operating income and contribution margins both of which are expanding year-over-year.

Dell Services now include Perot Systems. Total revenue was $1.9 billion including approximately $600 million from Perot. Our deferred revenue balance is now $6.1 billion up 6.4 percent versus prior year. As I said services now represent 13 percent of Dells consolidated revenue versus 9 percent a year ago. Software and peripherals revenue grew 3 percent sequentially and with flat year-over-year driven by intentional decision to prioritize LCD panels for system applications.

As I review our progress on our $4 billion cost target, I want to quickly summarize some of the progress we've made in transforming the business. Over the past two years, we've spent over $750 million on severance and facility actions, cost to sell, close and consolidate our facility and manufacturing footprint and reduce our G&A spent.

Prior to our closing of the Austin TMC facility, we operated 11 manufacturing facilities versus only 6 today and have reduced our internal manufacturing capability by about 60 percent. This massive operational effort has taken a bulk of two years to realize and today nearly 53 percent of our products flow through our contract manufacturers and the capabilities in place to move this percent significantly higher.

Our headcount ex-Perot has come down from a peak of 92,000 in fiscal year 2008 to about 72,000 today, a 22 percent reduction in three years. With Perot we added back 24,000. In total we've reduced our OPEX by $1.5 billion from our fiscal year 2008 baseline with a lot more opportunity here.

On the COGS side nearly 90 percent of our consumer platforms and more than 65 percent of our business client platforms have gone through our cost optimization framework. In fiscal year 2009, we saved over $600 million. In fiscal year 10 we saved an additional of about $1.8 billion related to our design to value, plain sheet procurement and supply chain efforts. Both the OpEx and COGS reduction efforts have led to successfully improving growth and operating margins in our commercial business for the full year.

In consumer our cost reduction efforts were partially offset by inflationary component cost pressure in the back half of the year. And it's clear to us that we much continue to drive more costs out.

As you sum up these results you could see we reduced total cost by $3.9 billion and we're already ramping the next stage with our ongoing cost initiatives. This journey does not end. This has been really tough work during the most difficult economic environment in the history of the company particularly in our core commercial business. While it's a good start we still know there's a lot to do to make our business more competitive. Ongoing competitive pressure and economic realities never stop and we can't either.

As I described before, we have consolidated our product development activities and global operations function under Jeff Clarke. As part of our efforts around client reinvention, he's focused on taking up to the next level of lean manufacturing, improving our logistics, supply chain and reducing complexity.

We will limit the number of configuration choices where appropriate and move more of our product to a low touch, fixed configuration, an ocean ship model. Over the year these changes will further cost optimize our model and lower G&A and support cost.

Turning to the outlook, we're moving into the next phase of our transformation. We'll be taking less severance in facilities and expense going forward but we'll stay focused on cost initiatives and growth. You've seen us to be more acquisitive and this is probably the plan we laid out at our analyst meeting to increase the mix of higher margin and recurring revenue streams.

We're re-tooling our sales team to be more solution oriented. We'll continue to make investments, develop IP and deploy resources against improving the value and connections we provide our customers. You'll see us allocating new OpEx dollars to important growth programs. We'll continue to invest OpEx in periods of revenue growth and are committed to scaling this investment to our revenue.

We remain intent on driving improvements in our core business that will particularly affect our Consumer business and structurally change our sales manufacturing and delivery of products. We will continue to balance liquidity, profitability and growth as our framework to drive long-term value creation. As you see we generated very strong cash till this quarter and for the full year.

For the first quarter specifically, the overall PC and server industry is typically down 10 percent in units sequentially. We expect to do better than industry norms but still believe our revenue will be down sequentially in the quarter. And as I mentioned earlier we anticipate continued tightness in supply. Suppliers have been reluctant to add additional capacity until the demand environment among commercial customers and broadly is as robust as it has been over the last few quarters.

For instance panel pricing bottomed in January and market prices have begun to increase again in conjunction with strong demand for TVs in Asia and anticipated PC demand and memory pricing particularly for DDR3, it could be up again in the first quarter. We delivered greater than 18 percent gross margins for the full year. There will be seasonal volatility and we saw some of that in the fourth quarter.

As we move into the first quarter you should anticipate a revenue mix working back towards a more balanced dynamic. Our tax rate came in between the 28 percent and 29 percent consistent with the guidance we gave you last quarter. Given the continued globalization of our business we would expect this tax rate to decline modestly. We'll continue to examine our tax structure as the business changes including the effects of acquisitions.

Again our long-term value creation framework is focused in delivering five to seven percent top line growth and returning our operating margin to seven percent plus on a GAAP basis over time. Cash flow growth is our true focus and we expect to deliver through a combination of growing your revenue, expanding our gross margins modestly and continuing to manage and optimize our cost structure with a constant focus on great working capital efficiency.

We are confident in our ability to delivery the right technology to commercial customers and to participate in a meaningful commercial upgrade cycle. Our commercial businesses are well managed and we're positioned for further operating leverage as demand returns in the coming quarters. With that I'll turn it over to Michael.

Michael Dell: Thank you Brian. This past year, demand started off quite slow and gradually improved as the year progressed. Towards the later part of the year as the economy was stabilizing, we saw broad increases in demand across all of our businesses and that has continued. The drivers include strong return of investment especially for server and storage solution, an aging installed base and Window 7.

We're seeing a continuation of the favorable demand trend this year. We're focused on and seeing significant strength with our enterprise solutions. Our our 11G servers, Dell EMC and EqualLogic storage and the expanded Dell Services capabilities enhanced with the acquisition of Perot Systems.

On the client side, we are seeing the beginnings of a refresh driven by Window 7 and increased mobility. The age of the installed base is significant and customers see the refresh as the productivity enabler. We think that the refresh takes time and stretches well into 2011.

IT is the engine approach can be for our customers and we are well positioned with solutions that deliver total cost of ownership leadership and an expanding recurring revenue and profit and capital stream for our shareholders.

This year we are very focused on, and you are going to see us invest in, delivering best value solutions that are simultaneously open, capable and affordable and create significant value in the key IT architectural transitions. You'll also see us further reducing our product complexity, simplifying our supply chain and providing our customers with choices and value while improving profitability in the process and significantly enhancing our online capability with Dell.com and related online properties to improve customer experience, build loyalty and raise margins.

You'll also see us continue to make inorganic investments, adding new capability as we have done with Perot Systems and Services and last week with KACE Networks and Systems Management. All of these investments are part of a consistent strategy aimed at delivering technology solutions that enable people everywhere to grow and thrive. With that let's open it up to the operator for questions.

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

Our first question will come from Toni Sacconaghi with Sanford Bernstein.

Toni Sacconaghi: Yes, thank you. I have a question and a follow up please. I'm still struggling with the significant deterioration in gross and operating margin on a sequential basis. I know you're contributing a lot to Consumer in that mix but the fact is despite the fact all four of your business units had meaningful sequential revenue growth three of the four actually had a decline sequentially in operating margin percentage. So you're actually getting negative leverage in the quarter. Can you help us beyond Consumer understand what was happening? I know you talked about component prices but it actually looks like your ASPs were slightly up sequentially so you were able to offset some of that by passing it on to customers.

Brian Gladden: Yes Toni, I think when you look at the gross margins in total you can mathematically from a consumer mix standpoint, there's at least 30 to 40 basis points of quarter-over-quarter pressure there. The consumer margins separately in terms of their own gross margins were also challenged. Those were the two things we isolated. I think when you look at even gross margins within the commercial business we saw a strength and improvement there so the teams did a nice job really offsetting component price increases in the commercial side of the business.

You do see some incremental OpEx going into the business as we see in some cases sales compensation that goes with the growth. In some cases we made R&D and strategic investments that have taken up the OpEx but I think those are smart investments and we are trying to do that in a way that's consistent with the growth that we're seeing in the market place. I do think in the commercial side of the business you will see some good leverage as we move forward with this growth. The operating expense will drop sequentially in the commercial business.

Toni Sacconaghi: Yes I guess the question is- when do we, as you mentioned the gross margins were up percentage wise in the commercial business but still in two of the three the operating margins were down despite a pretty significant sequential improvement in volume. As we look out to 2011, how should investors think about gross margins and operating margins given the cost cutting? If I take what you're saying qualitatively, which you're going to continue to work on the cost side, hopefully the mix will kind of more normalize. You're going to get some volume leverage. The natural inference is to believe that you should have higher if not materially higher growth than operating margins in 2011. Is that a reasonable expectation? What caveat should we put against that?

Brian Gladden: I think you got to break it into pieces Toni. We had, I would say pretty strong operating income rates within the SMB business and within the public business in the quarter and in the public throughout the year. I think there's room for us to gain leverage and improve the operating income levels in the LE business as we get some leverage there and I would expect that to look more like the Public business from a profitability stand point.

And then we've talked about Consumer. I think as we look at that at nine-tenths of a percent for the year, we think that should be at least double that and obviously we need we can improve beyond that over a period of time.

At gross margins, you have to look at over a longer period of time, it has been relatively stable. That would be our intent as we mix the business up to higher margin enterprise products and more services and things like that. I think you'll see that move up but there will be some volatility there.

Toni Sacconaghi: Thank you.

Operator: The next question will come from Benjamin Reitzes with Barclay Capital.

Benjamin Reitzes: Yes, thanks a lot. I guess I wanted to delve a little deeper into constraint. You talked about there were constraints in the quarter but also last quarter you had constraints. I was wondering how much revenue benefited in the quarter from constraint from last quarter and whether there was anything that was maybe better than expected due to that. And then to that end also what impact did constraints have in the current quarter and how much demand in pent up into upcoming quarters. Thanks.

Michael Dell: Yes I think it's fair to say as we entered the quarter, we saw better demands than what we expected coming into the quarter. We did see component prices being challenged and we had positioned them in terms of supply and support some growth in the quarter. It's fair to say we were chasing some parts in the quarter.

Brian Gladden: We were chasing the demand and I think we're feeling like we're starting to get out in front of it but I'll tell you the demand has continued to be strong.

Benjamin Reitzes: In particular on the component side you mentioned DRAM as particularly tight and should continue to be, panels getting tighter. Any comments on anything else including drives and anything else that's been particularly tough that you had to do anything either abnormal or anything that's also contributing to the cost?

Michael Dell: I think the bigger discussions have been around industry capacity. We've sat down with the leading companies in the supply chain and said OK here's what we think we're going to need in the next six quarters, ten quarters and let's talk about capacity investments because I think a number of these folks didn't have the capacity and as we look at our business and expected demand, there's some investments that are lean, we're starting to see those go in. We were able to get I would say pretty good response on the upside request that we had to. We didn't anticipate the demand would be as strong as it was. That's a pretty good characterization of it.

Benjamin Reitzes: Thank you very much.

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

David Bailey: A follow-up on the gross margin a little bit. Could you comment on the impact on gross margin from Perot in the quarter? Would gross margin have actually been lower without Perot?

Brian Gladden: The impact of Perot was basically zero. It came in and it fundamentally basically the same gross margin rate as our core business.

David Bailey: And then just to follow up on that, you said that gross margin the last couple of years, gross margin have been flat or slightly down quarter-over-quarter going into the April quarter but it sounds like you're saying that it should be different this year, is that accurate?

Brian Gladden: No, no gross margins typically go up in the first quarter because you don't have a consumer effect and we would expect that will occur again in this first quarter.

Michael Dell: Yes David, I think we were saying that we're looking at the industry seasonality typically down ten and I think we said we expected to do better than that. That is more of a revenue comment.

David Bailey: OK thank you.

Operator: Our next question will come from Richard Gardner with CitiGroup.

Richard Gardner: OK thank you. I wanted to ask you what makes you think that the strength in LE in the fourth fiscal quarter was budget flush and is not sustainable as we go into the first half of calendar 2010. I think Michael you mentioned that demand has continued to be strong and there was also comment that you are optimistic about what you've seen so far in the April quarter. What is it exactly that makes you believe that there may be a pause here as we go into the first half of the year?

Michael Dell: I think we were surprised at how rapidly that business came back in the latter part of last year. I think we've been pleasantly surprised at how strong it has stayed and you sort of take this on a week-by-week basis but there's a lot of refresh and a lot of spending that we're seeing and it's fair to say the sign are quite encouraging in the day-to-day orders that we see from that business.

I would say there's clearly some end of year effect in that business as customers had confidence that their budget wasn't going to change as they got to the end of the year and they said, hey what do we want to spend and what do we want to spend that on. It was infrastructure, it was servers, it was storage and we captured quite a bit of it but I think the budgets are in place for this year and they have a lot of client refresh in them. They have a lot of server virtualization. They have a lot of storage virtualization and are well positioned to capture that I think customers are spending with a lot more conviction at this point in the year than they were certainly this time last year.

Richard Gardner: OK just to be clear Michael, there was nothing about the linearity in the quarter that made you feel like things were trending down a little bit in January or customers were re-trenching a little bit as they evaluated their 2010 budgets.

Michael Dell: No l wouldn't say that no.

Richard Gardner: OK. Alright, thank you.

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

Katy Huberty: Good afternoon, nice job on the top line guys. My question is on the consumer margins with 90 percent of the consumer platform cost optimized, volumes up double-digits, your competitors talking about those better margins and ASP trends in this business. I guess I want a better understand what the structural limitations are to hitting a better margin profile even with some of the DRAM issues that you saw in the quarter.

If the answer is component cost are really the biggest limitation, are you doing anything in terms of locking in better pricing as you go through this year so you can address that issue? Thank you.

Brian Gladden: I would say we're disappointed with the margins. I think we've done a lot on cost. There is for me, product redesign standpoint, we've done a lot of the efforts there. There's still work we have to do in the supply chain and that's a lot of the efforts that you hear. We talk about client reinvention and really continuing to get cost out and overhead out of manufacturing. Those are important steps for us continue to take cost out of the products.

I think the reality is it's been challenging. There's more work to do there. As we look at some of the structural things we're trying to do here, we've got some plans in place that I think will continue to make us more competitive in Consumer. We like the growth. We've seen very strong unit growth. That's been important to us from a scale standpoint but the reality is we're disappointed in the profitability so more work to do there.

Katy Huberty: When would you expect the new actions to be reflected in the margin profile of the business?

Brian Gladden: I think you'll continue to see efforts around cost out over the next several quarters including continued efforts to consolidate manufacturing, continued efforts to simplify the product line and that stuff will rollout really over the next several months.

Katy Huberty: OK. Great. Thank you.

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

Bill Shope: OK thanks guys. I hate to ask another margin question, but I just want to make sure I understand the strategy here. Presumably, you could have ceded some revenue outside this quarter to preserve gross margin as you did for all of last year. Should we view the gross margin performance as a sign or at least a partial sign that you're shifting your focus at least back towards market share preservation now that the economy is recovering and you're potentially entering a potential refresh?

Brian Gladden: You've got to break it into a couple of pieces. I think on the commercial side of the business margin rates were good and solid and I think we just saw very good demand. I think the challenges we said was really on the consumer side and one of the specific issues as we said was some of the component pricing earlier in the quarter and some of the retail deals that we had there that we were a bit locked into pricing. Again the focus around margins really has to be a consumer discussion and that's what we'll go work on.

Bill Shope: OK and then shifting on the topic a bit, can you give us some more color on how your acquisition strategy may evolve over time particularly as we go through this year. Where are the primary areas of focus and where do you have holes to fill? Are you still looking more towards relatively smaller targets at least in fiscal 2011?

Michael Dell: Yes I think you'll see certainly more small things than medium sized things but we're quite focused in the data center and in the whole solutions area. I think if you look at the history of recent transactions it gives you a reasonably good road map for the kinds of things to look for. I wouldn't expect a lot of larger transactions. But we're finding lots of opportunities and I think if one looks at what we've done with EqualLogic we think there are many candidate companies that fit a similar profile where our customer access and distribution can dramatically expand the opportunity. KACE Networks being I think the latest example of this and a product that very much a solution really, a software that fits very much with the capabilities that we uniquely have and can execute on.

Bill Shope: OK. Thank you.

Operator: Our next question will come from Maynard Um with UBS.

Maynard: Hi, thanks. First question, can you just give us the amortization of intangibles from another one-time items between the product and services COGS just so we can get to pro forma and segment gross margins and I guess if there are any one time reversals or airfreight that had a gross margin impact. Secondly I just want to talk about Perot and the opportunity there.

You originally talked about the opportunity being international but it sounds like you're also seeing some benefits here in the U.S. from a synergy perspective. Can you just talk about the international strategy for Perot whether that's changed and I'm wondering if there are people on the ground you have today internationally where you can leverage the Perot platform. Do you think you have to make some upfront investment or acquisition before we start to see the revenue start to ramp there?

Michael Dell: Yes I'll address the services question. One of the things that we are seeing is an increased win rate in a number of parts of the business as our solutions capability both real and perceived have substantially increased here and in terms of building that internationally we do have some footprint and capability that can be leveraged but there's a lot to do here both organically and inorganically to extend the platform.

Some of these services can be delivered in a remote fashion. Some can be delivered as SKUs that are attached to products, which is a great engine for us and is where you see this deferred services balance continue to grow and that's quite healthy margins for us.

We've also integrated our own IT organization into Dell Services and that gives us a global platform and capability we are going to extend rapidly out to customers. So as we look at Brazil, China, India, there are significant opportunities to take those Dell Services capabilities and extend them globally.

Brian Gladden: Maynard, I think your question was really around amortization with tangibles. If in the quarter we had a total of $86 million, 40 of that was really the existing Dell and then there was 46 related to the Perot, I think that's the breakdown. In terms of incremental cost related to expedite things like that, that would have been generally immaterial.

Maynard: OK but of the $86 million, can you just give us the split within COGS versus SG&A just so we can get to segment pro forma gross margins?

Rob Williams: Yes, Maynard, if you go to the reconciliations that are at the end of the press release, it will also be included in the table associated with the web deck, it's all in there in that walk from GAAP to non-GAAP. I believe it's $71 million related to COGS and $15 million related to OpEx.

Maynard: Great. Thank you.

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

Brain Alexander: Just back to the balancing the Perot within profitability in the commercial space given the focus on profitability and the corresponding market share losses you've seen in the commercial clients base, we talked a lot about consumer on the call but at what point do you think you'll be in a position to win back market share in the commercial space?

Michael Dell: Well I think if I look at the business sequentially comparing our business to key competitors certainly our revenue growth was well ahead of competitors sequentially. We were 16 percent sequentially growth and double-digit on units. Our competitors were single-digits on revenue. One was double-digit on units but another was single-digit on units. We outgrew certainly on revenue and we were also playing this a little bit differently on the average selling price side. We're not participating in some of the less than profitable units.

Rob Williams: So Brian this is where it gets to be a little bit of a challenge when the unit numbers continue to be brought up over and over again. I'm not implying that you do that at all but we are really focused on driving revenue share growth in the IT spend. I think while one quarter doesn't make a trend we've got some encouraging signs here and we need to watch these for a few quarters and see that it lines up and starts to repeat itself over time. But if you look at the commercial businesses there were some pretty healthy growth there on a sequential basis. Even when you back out, the effect of Perot, we had some pretty strong growth. Again one quarter doesn't make a trend but I think we're pointed to the right direction there.

Brain Alexander: Thank you very much.

Operator: Our next question will come from Shannon Cross with Cross Research.

Shannon Cross: Thank you. Can you provide some more color just on where you're specifically investing in your enterprise business? Are there areas where you're hiring sales people? Have you changed comp plans? Just any color you can give us, where you're investing and clearly we need to think about how you're doing that with revenue growth and then balancing the profitability. More details would be helpful. Thanks.

Michael Dell: Yes absolutely, I think you can think about servers, storage, solutions. If you look in the quarter we had high teen's sequential growth in servers and storage, 26 percent year-over-year growth in servers, 44 percent growth in revenues in EqualLogic. We're investing a lot in that whole kind of solutions layer in the infrastructure and efficient enterprise and certainly shifting the capabilities of the sales force. I think the big part of this past year was building those capabilities inside the sales organization to really go focus on the data center and solutions.

Brian Gladden: And Shannon I would say this past summer as we started to see some demand come back to the business we made some decisions to free up additional investment that really started in the third quarter and into the fourth quarter and then it accelerated right around those specific areas and funded programs where we thought they fit well with the commitment around solutions and high margin recurring revenue opportunities.

Michael Dell: So that all of the areas I've mentioned and Brian just mentioned are areas where we are hiring and will hire to go invest in growth.

Shannon Cross: OK great. And just to follow up with Brian. Are there any puts and takes we should focus on for cash flow in the next quarter. Just anything that would be different on a year-over-year basis or anything we should focus on?

Brian Gladden: I can't think of anything unusual as we go into the first quarter. The consumer dynamic is one that we face in the fourth quarter that should be a little bit simpler in the first quarter but other than that I can't think of anything.

Shannon Cross: OK. Thank you.

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

Mark Moskowitz: Thank you. Good afternoon. I have a clarification and a question. The clarification, I may have missed this, I do apologize but in terms of the gross margins, give us the puts and takes in terms of the sequential degradation in services including software gross margins? How much of that was related to one-time item versus consumer versus commercial? I'm just surprised that the Consumer would have that much of an impact on the services gross margins given the product gross margins were not that bad. I'll ask my other question next.

Brian Gladden: Yes. The way we've explained it, it's really isolated to a consumer dynamic. If you look at, walking from a third quarter or 18 plus gross margin really 30 to 40 basis points is driven by just the incremental consumer mix and the rest of it really is weaker margins within consumer given some of the retail transactions we talked about. We've isolated it to that. So we'd isolated it to that. There's really no other services when you think about (Perot) really came into the portfolio and consolidated with a very similar gross margin rate, 18 percent or so.

Mark Moskowitz: OK. And then I wonder if you can help us understand as far as how investors think about your leverage in the commercial business going forward, just given the Nehalem refresh seems to be driving a richer content sale out there for a lot of folks, and almost kind of a mini gold rush, if you will, in terms of server refreshes, be getting a lot of other type of IT investments in these early stages, and how should investors think about the upper pressure there? Could that start to offset some of the other challenges in consumer, or is that more a wait-and-see type thing?

Michael Dell: Yes. I think if you look at Nehalem, kind of the phase one of Nehalem was you know really strong, and you look at our business you know we had 26 percent year-over-year growth. I think as you go to Nehalem EX, the ROIs just get higher, and you know this becomes extremely compelling. You have the opportunity for a faster refresh cycle because as customers look at the Nehalem EX, they say I can virtualize more machines, it's even more compelling to go and replace.

We also you know created this data center custom solutions business. It's been growing very, very fast. You're going to see some more announcements from us next month as we kind of take those capabilities to a broader set of customers, and I think it's fair to say we've been you know winning the lion's share of the opportunities you know with the largest you know kind of Web-driven firms in the world.

And you know what's interesting to see here is that there is a continual shift to x86, and, of course, all of this you know we're working really hard to tie storage into it you know with our EqualLogic platform, with our Dell EMC platform, and we have other storage platforms clustered you know file system type platforms, and you'll see us continue to grow those out over time.

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

Keith Bachman: Hi. Thank you.

I have two questions, Brian, for you. Operating expenses on a dollar basis, how will that trend for the next couple of quarters, particularly if revenues are down sequentially in the April quarter?

Brian Gladden: We're going to try and manage some of those investments for the long term, and we will make an attempt to scale it in a quarter-on-quarter sequential decline. We think we'll be relatively modest in the first quarter, so we'll continue to manage that tightly and invest as we see the growth coming.

So I would expect to be slightly up going into the first quarter as we invest, and then as we see growth in front of us, we'll continue to make the important investments for the future.

Keith Bachman: OK. And then – thank you, Brian. And then my follow-up is on SMB. Again, going back to the operating margin, it was down about 100 basis points, and yet as I look at it, mix seemed to be richer in SMB with servers and storage outperforming the other parts of the business, so just want to try to understand profit margins and SMB and why those profit margins were down sequentially.

Brian Gladden: Yes. I think this is underneath the covers a little bit, there's some sequential regional mix that impacts the margins in the SMB business, as you look across the globe, and I think that's one of the dynamics. I think there's also some sales comp from an op ex standpoint in the quarter that may impact the out bake in the quarter.

But we're pleased with the profitability of that business, very strong gross margins, and good operating income, and it's good to see the growth back.

Keith Bachman: OK. Thank you, Brian.

Rob Williams: Yes. Just to add to that, Keith. I think even as you look at some of the sequential changes in operating margins across the global business units, you've got to think about that same comment we made about you're going to see some of that volatility from time to time just because of the mix up of the business and some of the things we're going to try and accomplish.

But we're really trying to manage it across the broad business as a portfolio, so you're going to see that from time to time in these businesses, just like Public. I mean, Public was down this quarter. This is a quarter when their business is seasonally down, and they've still got that op ex they're carrying through the slowest quarter of the year.

Keith Bachman: But, Rob, just to follow that, last quarter Public was actually up sequentially in profit margin. Last year, Public was actually up sequentially in profit margin.

Rob Williams: You're talking in …

Keith Bachman: From 4Q '09 to first Q '10.

Rob Williams: Right. Again, we're managing as a portfolio, so it's really hard to kind of say look at those sequential patterns and on the historical pattern and say that's exactly what's going to happen.

Keith Bachman: OK.

Rob Williams: Now, there are different factors that are kind of working into the whole portfolio play there.

Brian Gladden: Yes, for the public business, with relatively good demand last year, relative to the rest of our business, we managed that op ex to basically flattish, and operating income expanded you know 120 basis points during the year.

So we're pleased with how the public business performed last year.

Keith Bachman: OK. Thank you, guys.

Rob Williams: Thanks, Keith.

Operator: Our next question will come from Steven Fox with CLSA.

Steven Fox: Hi. Good afternoon.

Just one question on the pipeline. I was wondering if you could differentiate a little bit between maybe what you're expecting for the next couple of quarters in Large Enterprise versus SMB, and then lastly, when you consider the public pipeline, is there any negative implications from maybe municipal and federal deficits maybe slowing down growth there? Thanks.

Michael Dell: I would say that relative to last year, the Large Enterprise pipeline is certainly a lot stronger. Both of the pipelines feel pretty good, and I think we're feeling pretty good about our enterprise and services opportunities in those.

In terms of public, you're right to point those out. There are some states that are in a state of distress, if you will. I think the interesting question here, if you look in the history of mankind, public organizations generally do not reduce their spending, so if they do reduce their spending, it will be the first time it's ever happened. So, that'll be interesting to actually see what happens.

But I think the other thing that we're finding is that many of these organizations have not adopted what I would call commercial best practices, and so if you think about, for example, universities that have a decentralized IT structure and now the university is saying, well, how am I going to meet this budget challenge? Well, hey, we know how to do that. It's called server virtualization.

And so actually I think some of the budget pressures in these public organizations may create opportunities for IT. We find that the public organizations tend to be some of the ones that have least taken advantage of the newest technology, so all the things we talked about earlier in terms of high ROIs with server virtualization, we actually don't find nearly as many of those in public organizations as we would all like to see.

So, I think the budget pressures may create more opportunities there, but you're right to highlight those potential risks.

Steven Fox: OK. Thank you very much.

Rob Williams: Thanks, Steve. Let's take one more question.

Operator: OK. And our final question will come from Jayson Noland with Robert Baird.

Jayson Noland: Thanks for fitting me in, and Brian, thank you for the non-GAAP presentation.

Two questions. First is on the cash conversion cycle. I guess as we move more toward build to inventory and away from build to order, would we expect to see a negative impact to CCC that hasn't shown up yet?

Brian Gladden: Well, I think we've got a pretty solid plan to manage through that, and try and maintain current levels of cash conversion cycle. We said it in the talking points that mid 30s is sort of what we're targeting, and that's what we'll continue to push for. I don't see any reason why that's not achievable.

Jayson Noland: OK. And final question from me on storage - up 18 percent sequentially, pretty impressive. Maybe if you could talk about any more details around operating profit contribution. I assume it's been very good given EqualLogic, and then the relationship with EMC as the Dell EMC platform becomes a smaller portion of the mix there.

Michael Dell: Well, the mix has been improving, and within the EMC relationship, we have been moving it more toward the real value add products and less of the pass through products, and so that's definitely putting some pressure on the top line, but it is improving the margins there, and I think putting us the kinds of business that we really want to be in.

But the operating margins, the margin dollars in storage, are definitely improving, and we've got a significant platform there. I think we've added about 15,000 new EqualLogic customers since the acquisition, and we're adding about 2,000 a quarter, and so this is a platform that's very, very strong. We're integrating a lot of new partners. For example, if you look closely, you'll see a lot of work going on with Brocade and many others as this kind of becomes a real platform.

I also think that as we talk to customers, there's a lot of momentum around 10 gig Ethernet in the data center, and as we bring 10 gig to the server, 10 gig to the storage, there's an enormous opportunity to kind of create the efficient you know data center structure here with our core you know kind of crown jewels right at the center of it.

Jayson Noland: Thank you.

Rob Williams: Thanks, Jayson, and thanks to everyone for participating today. We look forward to meeting with you on the road and here in Austin over the course of the quarter. Take care.

Operator: This concludes today's conference call. We appreciate your participation.

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