DELL INC.

FISCAL YEAR 2012 THIRD QUARTER

EARNINGS CONFERENCE CALL

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OPERATOR: Good afternoon and welcome to the Dell Inc. Third Quarter Fiscal Year 2012 Earnings Conference Call. I'd 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, Head of Investor Relations.

Mr. Williams, you may begin.

ROB WILLIAMS: Thank you.

With me today are Michael Dell, Brian Gladden and Jeff Clarke, Vice Chairman of Global Operations and End User Computing.

We've posted our Web deck on Dell.com, and we're shifting focus of our V-Logs on Dell Shares to our guest speaker. So, I encourage you to review these materials for added perspective and incremental information.

In Q4 we'll be attended the Credit Suisse Technology Conference on November 30th, the Barclays Tech Conference on December the 7th, the Raymond James IT Supply Chain Conference on the 13th, and CES on January 10th.

Next, I would like to remind you that all statements made during this call that relate to future results and events are forward-looking statements that are based on our most current expectations. Actual results and events could differ materially from those projected in the forward-looking statements because of the 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

Web deck. We assume no obligation to update our forward-looking statements.

Please note that on today's call we will also be referring to non-GAAP financial measures, including non-GAAP gross margin, operating expenses, operating income, net income, and earnings per share. Historical non-GAAP financial 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, and in our press release included in our AK filing today. I encourage you to review these documents. Also please note that unless otherwise mentioned, all growth percentages refer to year-over-year progress.

Now, I would like to turn it over to Michael.

MICHAEL DELL: Thanks, Rob.

We're pleased with our results in Q3 and year to date. This is a new Dell, and we're much better equipped to give our customers a clear path to productivity enhancing solutions. We're growing Enterprise Solutions and Services, including developing and acquiring key IP and sales capability, and the result is growing earnings and cash flow.

In Q3, our Enterprise Solutions and Service business grew 8 percent to a record high $4.7 billion, and increased 13 percent excluding third party storage hardware. Enterprise Solutions and Storage now account for 46 percent of our gross margin dollars.

Our improved profitability and cash flow have enabled us to move forward with strategic investments, both organic and inorganic. Innovation in both hardware and software is fueling our new product pipeline. We're now investing in R&D at an annual run rate approaching $1 billion. Dell now has 5,000 patents granted or pending around the world, and has over 20 R&D labs globally.

We've made five acquisitions since the beginning of this year. This is enhancing our capability as an enterprise solutions provider with a focus on servers, storage, networking, and security. This year, we've also increased the number of sales resources focused on enterprise solutions and services by about 30 percent. This along with our approximately $1 billion commitment to deliver enterprise solutions and cloud-based delivery options is making a real impact on our business.

Finally, we delivered revenue of $15.4 billion for the quarter. We're choosing not to participate in low value opportunities, which have put short-term pressure on revenue growth, but have been a real driver of our expanded margins and growing earnings. We continue to believe that increasing our share of industry profits is the right strategy.

Our year-to-date GAAP operating income is 7.6 percent of revenues, and our year-to-date GAAP EPS has increased 68 percent.

Now, Brian and Jeff will provide more details on all of this.

BRIAN GLADDEN: Thanks, Michael.

I'm pleased with the progress we're making this year on our financial and strategic priorities. Our year-to-date results are a strong indicator of our progress towards our stated goals, especially in a tougher economic environment. We've clearly made progress in driving to more consistent profitability, and expanding our cash flow generation. For the third quarter, our GAAP operating income was $1.1 billion or 7.4 percent of revenue, and we delivered EPS of 49 cents, which was up 17 percent. Consolidated revenue was flat at $15.4 billion, and down slightly versus the second quarter.

This was below our view heading into the third quarter, but I'm pleased with the tradeoffs that we made in the quarter. We grew in the right places, specifically in enterprise solutions and services, while continuing to migrate away from lower value added segments of the client and S&P businesses.

As we expected, the pricing environment was slightly more aggressive in the third quarter, but our teams executed well to maximize our profitability. In addition, we face challenging demand dynamics in certain parts of our business, namely consumer in developed countries, U.S. Federal, and our public business in Western Europe.

Let's take a closer look at the third quarter P&L. Our key performance metrics are provided for your reference on pages 6 and 7 in the Web deck. And as a reminder, I'll refer to non-GAAP financial measures for the balance of the call.

We delivered 23.1 percent gross margins up 310 bases points year over year, and 40 bases points sequentially after normalizing for the favorable vendor settlement included in the second quarter. OPEX was 14.7 percent of revenue up 230-basis points and flat sequentially. On a dollar basis OPEX was down $39 million sequentially, or 2 percent, which was in line with our revenue decline.

Given the more uncertain macro-economic backdrop we reduced discretionary spending and reduced general administrative expenses across the business. We continue to make investments in sales, marketing, and R&D. And we're comfortable with our investment trajectory in these areas. Going forward we'll be closely monitoring productivity to be sure our investments here are delivering on our return expectations. You can count on us to be prudent with additional investments until we see an improvement in the broader economic environment.

Operating income was up 80 basis points to 8.4 percent, with OPINC dollars up 10 percent to $1.3 billion. Interest and other expenses were $70 million. Our tax rate was 19.3 percent and it was driven by an increase in earnings and lower tax jurisdictions. And earnings per share increased 20 percent to 54 cents per share. Our cash conversion cycle was a negative 31 days. Inventory increased one day relative to the second quarter. Days payable decreased two days from the second quarter, driven by linearity within the quarter and quarterly seasonality. Days receivable was flat sequentially.

In the quarter we generated $851 million in cash flow from operations, and have now generated $5.2 billion for the trailing four quarters. We ended the quarter with $16 billion in cash and investments. And we repurchased $600 million in stock in the third quarter, and now have repurchased $2.2 billion or $142 million shares year-to-date. As we close the year we will continue to take a disciplined approach to capital management, balancing cash needed for key organic and inorganic investments with repurchase activities.

Now, let's take a look at our lines of business and regional performance, which you'll find detailed on pages 11 through 14 of our Web deck. As I mentioned previously, we've had record revenue in our enterprise solutions and services business. Server and networking revenue increased 13 percent, with accretive margins and rising average selling prices. There continues to be a lot of momentum in server virtualization. Customers are partnering with Dell to provide mission critical services and solutions around the server, resulting in competitive differentiation, richer configurations, and continued strong profitability.

This is particularly evident in our small and medium business, which had server and networking growth of 18 percent. Total storage declined 15 percent, while Dell-owned IP storage increased 23 percent to $388 million, led by a refresh EqualLogic solution suite, and our Compellent fibre channel SANs.

The favorable mix shift in our storage business continues to drive significantly improved profitability, and this will continue. Dell services revenue grew 10 percent to 2.1 billion, and now represents 14 percent of our business. Our transactional services business increased 10 percent as we saw a very strong attach rates of Dell premium services. The outsourcing business grew 9 percent, and our projects increased 15 percent. The total value of new services contracts signed is $1.9 billon on a trailing 12-month basis.

Services backlog increased 11 percent to $15.5 billion, led by contracted services backlog growth of 12 percent. These leading indicators continue to position us well for strong services, long-term growth going forward.

Our desktop revenue was down 6 percent, while our notebook revenue was down 2 percent. Client gross margin dollars are up over 20 percent, driven by a focus on high value products and solutions. Our software and peripherals business continues to be an example of an area where we're enhancing our profitability by exiting portions of the business where the solutions are not strategic or are lower value added.

Revenue for the quarter declined 2 percent to 2.5 billion. However, gross margin dollars increased double-digits. Our focus on disciplined pricing is also evident in this space. A good proof point for this is our displays business, where we revenue increase 5 percent, but gross margin dollars increased 46 percent. Growth markets continue to be a key driver for the company. Revenue for these geographies grew 11 percent in the third quarter and is up 14 percent year-to-date.

Turning to our segment level performance, which is detailed on pages 16 through 19 of the Web deck, large enterprise revenue was up 4 percent to $4.5 billion, led by enterprise solutions and services growth with 11 percent. Services revenue increased 14 percent as we continue to expand our vertical expertise and develop solutions relevant to our customers business needs.

We remain focused on strategic business opportunities, and are not chasing those that are non-strategic with price. Operating income as a percentage of revenue improved 16 basis points to 9.8 percent of revenue and we delivered $441 million of operating income in the quarter. Our public business delivered revenue of $4.4 billion, which was down 2 percent. The primary drivers are continued weakness in U.S. federal and Western Europe. For U.S. federal we experienced the normal end of the fiscal year revenue ramp in September. However, in October, which is the first month of the federal fiscal year, we saw a slower spending pattern that was softer than historical norms.

The pipeline of opportunities focused on government productivity continues to be good. But, deals are not closing at the rate that we've seen in previous years. Despite the overall revenue decline, services revenue increased 7 percent to a record level for the business, and Dell IP storage revenue is up 35 percent. Both of these are good examples of this productivity focus.

Operating income was $463 million, or 10.6 percent of revenue, which is up 40 basis points from the previous year. Small and medium business revenue grew 1 percent to 3.7 billion. Client growth was slower than expected, as we saw muted spending in medium businesses in both the U.S. and Western Europe. There continued to be industry-based channel inventory challenges, particularly in Europe. As competitors aggressively move product out of the channel, we did not match the level of pricing aggression in most cases.

SMB had a very strong quarter in enterprise solutions and services, with revenue of $1.1 billion, an all time high, and up 18 percent. The improved mix is resulting in continued strong operating income performance. SMB delivered $386 million in operating income, or 10.4 percent of revenue.

Despite facing growth challenges, the consumer business expanded margins both sequentially, and year-over-year, and reduced OPEX spend from the second quarter to deliver $76 million of operating income, or 2.7 percent of revenue. Consumer revenue declined 6 percent, to $2.8 billion, as the consumer European business stabilized, Asia-Pacific had very strong growth, but the America's business had a decline, as we continue to exit low value segments of the consumer space that aren't profitable.

The migration to higher-value products is proven to be effective. Our high-end consumer notebook line, XPS, grew revenue 207 percent overall, and is now approaching 20 percent of our total consumer notebook revenue, and 30 percent of our consumer notebook margins. Through three quarters, the consumer business has delivered operating income of 3.3 percent compared to negative operating income for the first three quarters of last year.

Our global commercial channel business grew revenue in the third quarter, and we now have close to 100,000 partners in our partner program with over 2,000 of them at the preferred and premier levels. This has proven to expand the reach of our solutions to the broadest set of customers, and provides them with more choice and flexibility. We continue to build a very strong reputation in the channel exemplified by receiving CRN's award for best midrange servers for the second consecutive year.

Now I'll turn it over to Jeff Clarke to discuss the end-user computing business and operations.

JEFF CLARKE: Thanks, Brian.

In June we shared three initiatives that are our primary focus for end user computing. First, strengthen our core. We have massively simplified our offering with a dramatic reduction in configurations, simplified our supply chain, enhanced our online ordering process, and achieved more than a 30 percent reduction in supply chain cost since the end of Fiscal 2009.

We have grown our pre-configuration offerings from 19 percent of client shipments at the beginning of FY '11 to approximately 40 percent today. We are now shipping 60 percent of eligible units on consumer, small and medium business, on our way to a 70 percent exit rate by year-end. And systems going through contract manufacturing have averaged greater than 70 percent this year, up from 53 percent at the beginning of Fiscal '11.

Second, we are also delivering a broad range of solutions and services. In addition, we have deliberately reduced our exposure to low end of the client business, redirecting those resources and OPEX to higher value opportunities. For example, the revenue mix of services in SMP tied to the system is up 50 bases points. We have exited over $2 billion of low value client across our business, and premium products gained share year over year for the fifth consecutive quarter. These two initiatives have allowed us to maintain operating margins well above 5 percent throughout the year.

Third, over the coming year, we will closely work with key partners like Microsoft, Intel, Google and ARMs suppliers to introduce new and innovative solutions that will resonate with our core commercial and prosumer customer base.

Turning to the topic of hard drives, we want to express our concern for those affected by the tragic flooding in Thailand. As all of you know, the flooding has significantly impacted the hard drive supply chain, but the complexity of the issue, and the current state of affairs in Thailand where the flood waters are still receding makes it very difficult for the industry to pinpoint the magnitude or duration of shortages. So, that puts the industry in an allocation environment at least through Q1.

Last month, we made strategic purchases of inventory, and pulled in supply from our hubs. This drove an increase in our end of quarter DSI. We also have teams working with the impacted suppliers to manage our hard drive supply chain, and qualify new sources of supply. Our goal is to mitigate any impact to our customers in Dell, and our teams will be working throughout the quarter to do just that.

We have worked through various forms of industry supply shortages in the past, and each brings different variables into play, but we have found our operating model has proven to be very adaptable, and effective at managing through these situations in an optimized manner.

With that, I will turn it back over to Brian to provide a business outlook.

BRIAN GLADDEN: Thanks, Jeff.

Let's turn to our outlook for the remainder of the year. I would like to remind you that every six years we have a 14th week in the fourth quarter to effectively align our calendar and fiscal years. For this fourth quarter, we believe the 14th week will be worth approximately 3 percentage points of revenue growth driven primarily by the transactional businesses. Our relationship driven businesses have historically shown little benefit from these dynamics.

We're pleased with our year-to-date non-GAAP operating income performance, as we've delivered $4 billion of operating income, which represents growth of 39 percent year over year. We're committed to the strategy we communicated at the Analyst Meeting in June, and we're trending above our outlook of 17 to 23 percent full year non-GAAP operating income growth.

The teams are aligned and incentivized to sustain pricing discipline, and maximize operating income and cash flow. Given the uncertain macro-economic environment, and the complexity in working through the hard drive issue, we are trending to the bottom of the range of our revenue outlooking of 1 to 5 percent full year growth. We'll continue to be very diligent in managing operating expenses. We've invested significantly over the past several quarters in key strategic areas of the business. And we've tightly managed less strategic spending to enable this.

Given the scale of these investments, and the weaker demand environment, you can expect that we'll moderate incremental investments and focus on driving productivity from our recently added resources as we head into FY '13.

We anticipate interest and other to be around $70 million in expense in the fourth quarter, and we expect our fourth quarter tax rate to be between 17 and 19 percent on a non-GAAP basis.

We're on track for another outstanding year with our third quarter results; we have delivered $8.9 billion in operating income over the past two years. And for this fiscal year, we're on track to exceed the long-term value creation operating income target of 7 percent on a GAAP basis. We've made significant progress in building a more diversified and competitive set of enterprise focused businesses that now represent almost 50 percent of the margin of the company. We look forward to providing you with an updated outlook for FY '13 in February, and continuing to update you on the progress that we're making.

With that, let's open it up for Q&A.

ROB WILLIAMS: Thanks, Brian.

Just a quick reminder to limit your questions to one with one follow-up. Kristin, can we have the first question?

OPERATOR: Ladies and gentlemen, we will now begin the question and answer portion of today's call. If you have a question, please press *1 on your telephone keypad. You will be announced prior to asking your question. If you would like to withdraw your question, press the # key.

One moment please for the first question.

We will take our first question from Shannon Cross with Cross Research.

SHANNON CROSS: Thank you very much for taking my question. This is even more questions regarding, or a question regarding the HDD shortage. So, I'm not sure who wants to take it. But I'm curious as to how much is baked into your guidance, and if you're hearing from any of your vendors on changes of length of contract, or pricing regarding the HDD shortage?

BRIAN GLADDEN: Yes, Shannon, it's Brian. I'll take the first part, and then Jeff can take the second.

The outlook that we provided fully contemplates what we know now. And so, we've incorporated everything we know, and how we think we're going to manage through that in the outlook that we provided for the fourth quarter and the total year.

JEFF CLARKE: And, Shannon, I think your second part of the question was what's changing in terms, and how the different individuals we're working with in the hard drive supply base; is that correct?

SHANNON CROSS: Correct, if there's any change.

JEFF CLARKE: I think from our point of view, nothing has really changed. We've had strategic partnerships in place with long-term agreements with our key partners, and we've managed this as a strategic commodity. It's clearly an important area given our storage and enterprise business as well as our client business. We've committed to those partnerships over the long run. In these times of crisis, they tend to pay a dividend.

With specific to the crisis at hand, we've acted, I think, very decisively and promptly. Within 24 hours of being notified of the potential flood situation, we pulled in all inventory from our hubs into Dell warehouses and Dell locations. So, we moved within 24 hours of the potential of this occurring into the strategic inventory that Brian made reference to earlier in the impact to our DSI for the quarter.

Within 48 hours, we actually had a risk management team in place that began the process of how we manage our business. The ability to manage business continuity with the solid processes and skills that we've developed over the years we've put in place matching supply with customer need, understanding how to shape demand, understanding the availability of the parts coming in, the pending needs of our customer, and balancing that continuity of supply with the needs of our different business units.

That's how we've responded. We continue to do that today, and I'm optimistic that our team is working through the situation at hand, which is a difficult one at that, but we're in a position where we think we can mitigate the impact to our customers over the quarter.

SHANNON CROSS: Great. And then just one follow-up, has this changed at all your thoughts on timing for ultra books or SSD adoption?

JEFF CLARKE: I think it will be pretty obvious when you see the response by the industry, SSD attach rates will go up. They're low single digits today, so I don't expect that to be a huge aid in solving the shortages that are in the disk drive industry today. And we will have an ultra book that will be later out, it will arrive late in the fiscal year.

SHANNON CROSS: Great. Thank you very much.

OPERATOR: Your next question is from the line of Scott Craig with Bank of America.

BRIAN CHO: Hi, this is Brian Cho it looks like your operating margin in the fourth-quarter could come down more than 150 this quarter. Could you provide us with more details on the drivers behind that, please?

BRIAN GLADDEN: Did you say operating income, operating income levels?

BRIAN CHO: Yes, operating margins.

BRIAN GLADDEN: Operating margins, well I think we've been consistent throughout the year as we look at the dynamics that we see and have been somewhat conservative in how we're playing our outlook as we move forward. We've delivered strong gross margins. We've shown that we're going to be prudent with our OPEX investments. And I think we've tried to capture the uncertainty that exists in the market --

OPERATOR: Hello, Mr. Craig, your line is still open.

I believe that question has been withdrawn. Your next question is from Keith Bachman with Bank of Montreal.

KEITH BACHMAN: Yes, I hope the company can hear me. We got cut off. Is Dell management there?

OPERATOR: One moment, ladies and gentlemen.

(Technical difficulties)

OPERATOR: Okay, Mr. Williams, we have your line back in the main conference live.

ROB WILLIAMS: Right, okay. Thanks. Are we back?

OPERATOR: Yes, sir. You are.

ROB WILLIAMS: Well, let's go ahead, Jeff I think you were just wrapping up your question. So, let's just go ahead and go to the next question.

MICHAEL DELL: Yes, we'll take the next one.

OPERATOR: Okay. Your next question is from the line of Chris Whitmore with Deutsche.

CHRIS WHITMORE: I'm hoping you can comment on your outlook for IT spending growth heading into next year. You flagged some areas of caution. Do you think we're looking at a flat to down IT spending environment in Calendar '12?

MICHAEL DELL: I think IT spending is still an enormous driver of productivity and we would expect a reasonably healthy spend environment. Certainly we're indexing our solutions and activity around those things where there is strong appetite. If you look at our business the enterprise segment is growing very nicely, services are growing very nicely.

Servers and networking, we had a 13 percent increase in the quarter, very strong growth in networking, 43 percent without the Force10 acquisition, and 83 with servers, which is a very core part of our business. It's up 12 percent and services was up 10. So, we feel in a $3 trillion industry there's plenty of opportunity for us to grow and grow our profits.

CHRIS WHITMORE: So, my follow-up would be around consensus expectations for calendar 12 suggests earnings will be down for Dell, yet you seem pretty optimistic about growing your higher margin product areas. So, is the street or is consensus missing something about your outlook for next year, or can you help us kind of circle the square, if you will, thanks.

BRIAN GLADDEN: Yes, Chris, we haven't provided an outlook for FY '13. We intend to do that for you in February, just like we have in the past and until we do that I'm not going to comment on what consensus is right now.

CHRIS WHITMORE: Okay. Thank you.

OPERATOR: Your next question is from the line of Toni Sacconaghi with Sanford Bernstein.

TONI SACCONAGHI: Yes, thank you. HP faced tremendous organizational uncertainty this quarter, and I think at the surface it would really seem that it was ripe for Dell to gain share. But, it appears that the company lost share, particularly in PCs, and revenues were flat year-over-year. Now, I fully understand your desire to focus on profitability and not participate in low-value segments, and I heard when Jeff said that you appear to have walked away from $2 billion in business in the client area.

But, I guess the question is, how much more unattractive business do you have in your portfolio that you actually want to de-emphasize going forward, because that's going to continue to put a drag on your revenue growth. So, how do we think about how much more unattractive business you have and how long until you're kind of through that and we can see you growing at a market rate or better.

BRIAN GLADDEN: Yes, Toni, I think this is something clearly we've been doing for a while, and I think as we work through the portfolio it's fairly broad-based. I mean, it's client, but there are other areas, too. One of the areas that we'll continue to work through is third-party software. I think that's an area that we have a fair amount of revenue today with relatively unattractive margins, and we'll work through that over the next several quarters.

I think low-margin client continues to be a place that I don't think we're going to be very aggressive. There may be some selected opportunities there where we can see strategic benefits, but I think it's going to continue. I'm not going to give you a view on when we stop, because I think it's going to continue for a while.

TONI SACCONAGHI: But, is the implication of that ultimately if you're going to be walking away from chunks of your business, we should be thinking about Dell growing at below market revenue rates. I appreciate the focus on operating profit and you've shown an ability to grow operating profit very strong and above market. But, the implication on the top line is we should be expecting you to grow below margin, is that correct, below market, excuse me?

BRIAN GLADDEN: I think you've got to look at the individual pieces. I think there clearly are areas where we're going to see above market growth and as the business mix is up, and that enterprise solutions and services portion of the business becomes bigger, as we grow share in the higher-priced, higher-value area of the client space, I think those are all places we should grow faster than the market. So, I'm not going to give you a longer-term view, but I think we can grow the company, and I think there are clearly places where that's where we're making the investments for the future.

TONI SACCONAGHI: And then, my follow-up, please, if I may, you've been a little coy about saying whether you actually expect any impact from HDDs in Q4. So, could you comment on whether you expect an impact, and is the bigger risk to revenues or to margins because of the shortfall, and what's your rationale and your thinking?

JEFF CLARKE: Look, Toni, I think one of the challenges we're working through is, the situation is quite dynamic. It changes every day. The floodwaters haven't receded yet. Our risk management team is in looking at the tier two and tier three supply base from base plate to motors, actuators, bearings, top covers, et cetera, and we're also working with each of our partners to understand what our recovery plan looks like, or their recovery plans look like from building, to equipment overhaul, to install, to requalification. It's a very dynamic world out there with this hard drive situation.

Our view is, given the nature of how fast we acted, how promptly we pulled in inventory, how we manage our business, which you very well know, but for everybody else 70 percent of our business is still direct. We can manage lead-time availability. We know what customers have an urgent deployment, and an urgent need, and match up that supply so we don't miss key customer deliverables. That's how we're managing through the current situation. We prioritized our businesses. We prioritized our customers, all the things that you'd expect us to do to mitigate the impact to our end users. I know that's not answering your specific question of how we're positioned.

The team, we believe we're in good shape to mitigate the impact to our customers to the quarter. The financial outlook that Brian gave actually has our look of availability in supply, and our ability to deliver it to our customers.

TONI SACCONAGHI: Thank you.

OPERATOR: Your next question is form the line of Kulbinder Garcha with Credit Suisse.

KULBINDER GARCHA: Hi, a couple of questions. First of all, on the server business, I appreciate grew year on year, but if you look over the last four quarters, it really hasn't grown sequentially. So, you actually are up against difficult comp sets. So, could you speak about how much, first of all, this is in the revenue growth outlook, how you think about that over the next year or so? And, in addition, I think you've been existing some of the lower end server business as well, and how much more potential margin improvement there there is.

And then, for Brian, just a specific question. You mentioned kind of a sensible caution, let's say, on OPEX going forward. Could SG&A go, for example, back down to levels we saw, or is this going to be just a very minor adjustment depending upon the environment? Any kind of clarity there would be helpful. Many thanks.

BRIAN GLADDEN: I'll take the OPEX point, and then maybe Michael can comment on servers, and sort of what's going on there. I think we continue to invest. In the quarter, we made incremental investments in selling, in R&D, and in many cases aligned with some of the acquisitions and new technologies that we're developing internally. That will continue.

I think we've done a good job of basically managing effectively G&A, and managing discretionary spending in this environment. And in some cases moderating some of those investments in line with what we're seeing in demand. So, I think that's how we're going to continue to manage it quarter-to-quarter. We'll continue to make progress in making these investments. And I think that's the disciplined approach we've taken to OPEX spending in this environment.

MICHAEL DELL: If you look at our revenue growth, it's been pretty consistently -- it's actually been double digits every quarter for the last five quarters, except for the second quarter, where it was 9 percent. So, we've been 20, 16, 11, 9, 13. With respect to unit, we talked earlier about in the client business how we are productizing profit share over unit share. I would say in servers this is even more true, and I would tell you that the unit measurements are almost to the point of being irrelevant. And the reason is that there are many different types of servers. There are $500 servers, there are $5,000 servers, there are $50,000 servers. And if you want to sell a lot of units, you sell a lot of $500 servers. That's not the way you grow profits and earnings. That's not what we're focused on. We're focused on how do we capture the value which are the higher revenue, higher margin, more intense workloads.

KULBINDER GARCHA: Thank you.

OPERATOR: Our next question is from the line of Brian Alexander with Raymond James.

BRIAN ALEXANDER: Yes, just on enterprise storage, it looks like your Dell owned IP revenue was down sequentially, but it sounds like you're happy with the acquisitions that you've made there, Compellent, EqualLogic, et cetera. Can you elaborate on the lack of revenue momentum that you're seeing? I thought you expected it to bounce back this quarter, and when do you expect to see that head count additions, which have been substantial, translate to more meaningful growth in storage?

MICHAEL DELL: It was okay, it wasn't completely up to our expectations. There's some room for improvement there. Growth in Dell IP storage was 23 percent year over year, and it's now 84 percent of our overall storage business. We had good demand from Compellent. We launched a whole new product cycle in EqualLogic. There is definitely more to do here, and you're right we have put a lot of new people into the organization, and they're becoming product, and we still remain very optimistic about our ability to grow that business.

OPERATOR: The question is from the line of Keith Bachman with Bank of Montreal.

KEITH BACHMAN: Hi, guys. Thanks for getting me back in.

The first one I have is on services. It looks to be the standout performance there. What's the trajectory as you look out going forward, and what's the diver of that in terms of the various segments within the context of services, in particular backlog was it looks like flat sequentially, and yet even services was up about 4 percent sequentially. So, just hoping you could offer a little bit of color there, and I have a follow-up, please.

BRIAN GLADDEN: Yes, I think we continue to make progress with the services business, and, as we talked about, we completed the majority of the integration work with Perot Systems and Dell Services over the last couple of quarters. I think the team has made some nice progress. We've had very strong new services contract signings over the course of the last 12 months. We talked about a billion nine. I think the team has also done a nice job in improving profitability, and we saw sequential improvement in overall profitability with the services business.

Backlog, I think, quarter-on-quarter was up $100 million.

KEITH BACHMAN: Right, yes.

BRIAN GLADDEN: And it was up 11 percent year-over-year. The deferred balance on the transactional services side continues to move up citing double digits in the quarter. So, overall, I think the services, again, was a highlight to the quarter.

KEITH BACHMAN: So, Brian would you say -- sorry, Michael.

MICHAEL DELL: To put it in perspective, if you go back a couple of years ago, the services backlog was 5, 5-1/2 billion, now it's 15-1/2 billion. We have really changed the business pretty substantially. We've got 14 percent of our revenue in services. It's growing nicely. We changed the conversation with our customers, and made a lot of progress towards this solution focus that we've been telling you about.

KEITH BACHMAN: Well, my follow-up, Michael, then perhaps is for you. On the desktop numbers continue to lag in terms of year-over-year growth in revenues, and I was just wondering how you could comment, or if you could comment, rather, on are you seeing inflections in terms of the upgrade cycle that companies are interested in because of the economic cycles? And is that showing up in the desktop numbers? And then how should we think about Win8 next year in terms of that upgrade cycle?

JEFF CLARKE: Keith, this is Jeff. When we look at the deployment of Windows 7 in corporate, and where it is relative to the install base, I believe last month was the first month we've seen Windows 7 outpace Windows XP in our deployments out of our factories. It shows that there's continued movement, and their refresh is well underway. Most estimates have the refresh of Windows 7 in the install base in corporate less than 50 percent. I think our estimate is somewhere right around 40 percent.

So, there's still quite a bit of corporate refresh on the desktop and the notebook in business to migrate to the newest operating system, which is Windows 7. Then we have Windows 8 coming out next year, which we think is a tremendous upgrade opportunity around the touch interface. When I look at the opportunities of our XPS products, potentially new mobile products that will be out by the Windows 8 timeframe, there's an expansion opportunity that Windows 8 enables around the touch interface in closing the competitive gap that exists today.

ROB WILLIAMS: Next question.

OPERATOR: The next question is form the line of Maynard Um with UBS.

MAYNARD UM: Hi. Thank you. On product gross margins, they look like they're down sequentially, albeit on a GAAP basis, and I would have thought they'd be up as you walk away from lower margin business. So, can you just talk about why that is, and should we assume because of that, when you say you're tracking ahead of your OP income guide, should we be thinking about tens of bases points rather than the hundred plus bases points? Was there greater expansion, margin expansion, gross margin expansion opportunity in product next quarter?

BRIAN GLADDEN: Yes, Maynard, again, I think, we're talking about operating income. I think the reality is there are moving pieces within gross margins. As you know, in the second quarter we talked about the benefit from a supplier settlement that affected our margins. I think obviously that's one of the elements moving around.

I think we've driven very consistent and sustained margins for the last year on the product side and then in total. Again, part of that is making constant trade-offs around growth versus margins and I think we'll continue to balance that. So, I think you can expect that we're the same. That's really how we're going to manage it. And I think, as you think about the fourth quarter and heading into next year, and that continues to be a priority to focus on that profit and not necessarily focus as much on the unit shares.

MAYNARD UM: And if I could just follow-up on your revenue guidance, can you just parse out how much of your guidance to the low end is comfort on the HDDs, because of the inventory you've drawn down from the hubs, versus your ability to actually procure drives from the drive manufacturers.

MICHAEL DELL: I don't think we can parse it for you that finely. Next question.

OPERATOR: Your next question is from the line of Richard Gartner with CitiGroup.

RICHARD GARDNER: Okay. Thank you. I'm not sure if you can answer this one either, but I was hoping that maybe Brian you could talk a little bit about puts and takes on the gross margin for the fourth quarter. And in particular, typically consumer mix is a negative for you in the fourth quarter, but I thought you might be diverting a little bit more HDD supply to your more profitable businesses. I'd also be interested to get some commentary on the net impact on your bill of materials from this HDD issue, because on the one hand drive prices go up, but every other component probably comes down at an accelerated rate. Then also, some comments on competitive pricing, as well, impact on gross margin, thanks.

BRIAN GLADDEN: I think that was five for Richard.

ROB WILLIAMS: That's pretty good, Richard.

RICHARD GARDNER: They all affect gross margin, that's the common thread.

BRIAN GLADDEN: I'll give you some of the features again. I think, again, we've done a pretty good job of managing a lot of these elements over the course of the last year, year-or-longer. I think as you look at the fourth quarter, and you did year some of the points, we highlighted the fact that the pricing environment has tended to be slightly more aggressive than what we've seen over the last few quarters.

Obviously we're watching that and we're trying to make sure that we manage for profit. There are places where we haven't necessarily jumped into some of those aggressive pricing dynamics. I think when you look at component prices, clearly we would expect the price per drive on the hard disk side to go up. We're seeing that. And I think the reality is that when you look at the overall aggregate component costs for the quarter, there's enough other deflation in other components that it's going to more than offset that is our current view.

So, we should see net deflation, albeit relatively small, within the quarter. That's how we're thinking about it right now. Consumer mix has traditionally been a bit of a headwind in the fourth quarter. I think, given how we've been managing the consumer business, and the kind of business that we're taking in consumer, I'm not sure that's going to be the biggest challenge we have.

So, a lot of sustainable improvements in the supply chain that Jeff talked about that will continue to contribute. And when you put all those things together, again, we're trying to manage consistently and sustain high margins, and that's I think what you can expect in the fourth quarter.

RICHARD GARDNER: I guess the quick follow up, then, is it just doesn't sound like gross margins should be down a lot sequentially this year. Is that a fair assessment?

BRIAN GLADDEN: I think that's sort of the net of everything I said, yes.

RICHARD GARDNER: Okay. Thank you very much.

JEFF CLARKE: I'm just going to add to what Brian mentioned, as the hard drive situation unfolds, and we've had our risk mitigation team in place now for well over four weeks, we've been able to adjust pricing to reflect the cost. So, we've been able to reflect the value of this strategic commodity in our products, across our storage arrays, to our servers, all the way down into the notebook and the desktop. And you've seen that in our consumer business and our small and medium business desktop and notebook business.

BRIAN GLADDEN: And I think, Richard, you hit the point, which is the entire supply chain, including the OEMs are fairly focused on protecting their highest-value customers and I think that will play out across the quarter and over the next probably few quarters.

RICHARD GARDNER: Okay, great. Thank you.

OPERATOR: The next question is from the line of Ben Reitzes with Barclay's Capital.

BEN REITZES: Yes, great. Thanks for answering that last question in such detail, because that was mine. But, I want to ask a second one. The repurchase rate, 600 million, what are you thinking about for fourth quarter and beyond, and any other thoughts about capital allocation and how you're thinking about things, some of the companies in the space are also doing dividends of late. So, that's my follow-up, is going to be what you're thinking of a dividend. So, capital allocation, repo in the 4Q, and then your thoughts on the dividend.

BRIAN GLADDEN: Yes, Ben, there's no real change in our messaging around capital allocation. We continue to focus on strategic investments, organic and inorganic, to really help drive the strategy and transformation of the company, and then secondly returning capital to shareholders with a share repurchase program.

The target that we gave, we've been giving for a while is 10 to 30 percent of free cash flow. I think we did more than that in the first half, driven by really higher cash flow generation, and our ability to raise capital at favorable terms at the time. I think we'll head back, if you think about the second half in total, in aggregate, back into that 10 to 30 percent of a free cash-flow number. So, that's how we're thinking about it.

BEN REITZES: Okay. Thank you. Can you touch on the dividend question, as well?

BRIAN GLADDEN: Yes, it's not something we would talk about right now, and I think one of the challenges that I think we have to face into is really U.S. liquidity and the dynamics that that gives us around cash availability to do something like that. So, we'll continue to look at that.

BEN REITZES: Thank you.

OPERATOR: Your next question is from the line of Katy Huberty with Morgan Stanley.

KATY HUBERTY: Yes, thank you. As it relates to the price aggression you saw in the October quarter was it largely a function of some of your PC peers defending their market as they made strategic decisions, and worked through some of their inventory, or was the price aggression more broad across the enterprise segment, as well. And then also, was it specific to any geographies?

BRIAN GLADDEN: Yes, I think we highlighted it a bit in the talking points. I mean, clearly the channel in Europe, there were some challenges in terms of moving inventory through that channel, and I think we concluded we weren't going to match pricing in that space, and that affected our growth.

I think that there were other areas. As you look at, for instance, mid-range storage, as you look at, as Michael highlighted, higher volume server opportunities, those are all places we've seen more aggressive pricing.

KATY HUBERTY: And then just as a quick follow-up, Brian, you had commented on OPEX earlier, and it sounds like you're trying to rationalize some projects in this macro-environment. But, do you think we can actually see OPEX continue to come down sequentially, understanding that fourth quarter has the extra week and so there will be a little bit of a blip in 4Q, but beyond that do you think that you can bring operating expense down sequentially, as you rationalize some of those projects?

BRIAN GLADDEN: I wouldn't commit to that. I think we continue to make investments, and I think you're going to see some areas where we increase OPEX and other areas where we continue to reduce and take cost out of less strategic areas. So, it will be a bit of a mix. We clearly have a 14th week that will put pressure in the fourth quarter, no question on that.

KATY HUBERTY: Okay. Thank you.

OPERATOR: Our next question is from the line of Jason Noland, with Robert Baird.

JAYSON NOLAND: Thank you, a quick follow-up on HDD supply and a question on networking. Brian or Jeff, is it fair to assume that FQ1 could be more of a challenge from a supply standpoint than the January quarter?

JEFF CLARKE: Our view of the situation is the challenge and supply is through the first half of next year.

JAYSON NOLAND: Fair enough, maybe an update on Force10's performance and anything you can say about your willingness to expand your networking portfolio in general, either organic or inorganic.

MICHAEL DELL: Yes, you know, we're feeling really great about the networking business. We had 43 percent growth without Force10, and 83 percent with the addition of Force10. And the real play here for us, of course, is changing the conversation from a server conversation to server, storage, networking, and orchestration software and the whole data center, and given the number of servers that we sell there's a lot of pull that we can drive in our networking business, and certainly our ambitions go beyond switching and you'll have to stay tuned for future announcements.

JAYSON NOLAND: Thanks, Michael.

OPERATOR: We will now take our final question from Amit Daryanani with RBC Capital Markets.

AMIT DARYANANI: Thanks a lot for sneaking me in. Just a question on the extra week that you guys talked about. What's the impact that that would have on OPEX and the EPS line in the Jan quarter?

BRIAN GLADDEN: Well, really all the information we gave was that we would expect some incremental revenue, and we basically said 3 percent of incremental revenue would show up as a result of that. That's recognizing that the transactional business likely will provide incremental revenue during that period. We don't expect a big impact from the relationship business.

There are some other dynamics obviously playing out, one would be the Chinese New Year timing, that impacts on the supply chain as well as Asian customer demand during really he 13th week of our quarter we think also had some impact. I'm not going to provide any real input in terms of the OPEX dynamics, and what we're going to see in other parts of the P&L.

AMIT DARYANANI: And can I just follow-up, given the direct business that you guys have, at least on the consumer side, could you just talk about what you're seeing in terms of early year-end Christmas, of sell through in North America?

JEFF CLARKE: Could you repeat the question, please?

AMIT DARYANANI: I was just wondering, if you look at the direct part of your business, the direct model, could you just talk about what you're seeing in terms of U.S. consumer spending heading into the holiday season this year?

BRIAN GLADDEN: I don't think we have any real view that's different than typical sort of seasonality that we would expect to see.

MICHAEL DELL: The one thing that we're focused on as we focus on the higher profit areas of the client business is XPS, and we continue to introduce new products there. We have 207 percent increase in our XPS notebook business since last quarter, and stay-tuned for future product announcements.

BRIAN GLADDEN: Yes. We just launched our XPS 14Z.

MICHAEL DELL: Thanks for joining us.

OPERATOR: I'll now turn the call over to Mr. Williams for closing remarks.

ROB WILLIAMS: No closing remarks, we're wrapped up. Thanks.

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

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