

Management's Discussion and Analysis

ITEM 7 — MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SPECIAL NOTE: *This section, "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements that are based on our current expectations. Actual results in future periods may differ materially from those expressed or implied by those forward-looking statements because of a number of risks and uncertainties. For a discussion of risk factors affecting our business and prospects, see "Part I — Item 1A — Risk Factors." This section should be read in conjunction with "Part II — Item 8 — Financial Statements and Supplementary Data."*

All percentage amounts and ratios were calculated using the underlying data in thousands. Unless otherwise noted, all references to industry share and total industry growth data are for computer systems (including desktops, notebooks, and x86 servers), and are based on information provided by IDC Worldwide Quarterly PC Tracker, February 17, 2009. Industry share data is for the calendar year and all our growth rates are on a fiscal year-over-year basis. Unless otherwise noted, all references to time periods refer to our fiscal periods.

Overview

Our Company

As a leading technology company, we offer a broad range of product categories, including mobility, desktop PCs, software and peripherals, servers and networking, services, and storage. We are the number one supplier of computer systems in the United States, and the number two supplier worldwide.

We have manufacturing locations around the world and relationships with third-party original equipment manufacturers. This structure allows us to optimize our global supply chain to best serve our global customer base. We continue to expand our supply chain which allows us to enhance product design and features, shorten product development cycles, improve logistics, and lower costs, thus improving our competitiveness.

We were founded on the core principle of a direct customer business model, which included build to order hardware for consumer and commercial customers. The inherent velocity of this model, which included a highly efficient global supply chain, allowed for low inventory levels and the ability to be among the industry leaders in selling the most relevant technology, at the best value, to our customers. Our direct relationships with customers also allowed us to bring to market products that featured customer driven innovation, thereby allowing us to be on the forefront of changing user requirements and needs. Over time we have expanded our business model to include a broader portfolio of products, including services, and we have also added new distribution Partners, such as retail, system integrators, value added resellers, and distributors, which allow us to reach even more end-users around the world. We also offer various financing

alternatives, asset management services, and other customer financial services for business and consumer customers. As a Part of our overall growth strategy, we have executed targeted acquisitions to augment select areas of our business with more products, services, and technology.

Our new distribution Partnerships include the launch in Fiscal 2008 of our global retail initiative, offering select products in retail stores in the Americas, Europe, Middle East, and Africa ("EMEA"), and Asia Pacific-Japan ("APJ") regions. In Fiscal 2008, we also launched PartnerDirect, a global program that brings our existing value-added reseller programs under one umbrella including training, certification, deal registration, focused sales and customer care, and a dedicated web portal.

We continue to simplify technology, enhance value, and lower costs for our customers while expanding our business opportunities. Underpinning these goals is our commitment to achieving world-class competitiveness, any-to-any supply chain, services and solutions, and sales effectiveness. We are currently focused on five key growth priorities which, when coupled with our core competencies, we believe will drive an optimal balance of long-term sustained growth, profitability, and liquidity:

- *Global Consumer* — In the first quarter of Fiscal 2009, we realigned our management and financial reporting structure to focus on worldwide sales to individual consumers and retailers as a Part of an internal consolidation of our consumer business. Our global consumer business sells to customers through our on-line store at www.dell.com, over the phone, and

through our retail channel. The global consolidation of this business has improved our global sales execution and coverage through better customer alignment, targeted sales force investments in rapidly growing countries, and improved marketing tools. We are also designing new, innovative products with faster development cycles and competitive features including the new Studio line of notebooks, which allow consumers greater personalization and self expression. Finally, we have rapidly expanded our retail business in order to reach more consumers.

- *Enterprise* — In the enterprise, our solution mission is to help companies of all sizes simplify their IT environments. The complete solution includes servers, storage, services, and software. At the core of this simplification is the problem with complexity in IT architecture and operations developed over decades and ineffective services models that create unnecessary complexity and cost. We are focused on helping customers identify and remove this unnecessary cost and complexity. This year we have strengthened our storage portfolio with expanded EqualLogic solutions, new PowerVault storage products, and fourth generation Dell | EMC storage systems. We also invested in power and cooling solutions for our data center platforms, including blade servers, and as a result we have become the industry leader in server virtualization, power, and cooling performance.
- *Notebooks* — Our goal is to reclaim notebook leadership by creating the best products while shortening our development cycle and being the most innovative developer of notebooks. To help meet this goal, we have separated our consumer and commercial design functions to drive greater focus on our product development process. According to IDC data, the sale of notebook units globally outpaced that of desktops for the first time during the third quarter of calendar 2008; this trend is expected to continue into the future. In the third quarter of Fiscal 2009, we introduced a new addition to our Dell Inspiron products with our new 3G enabled Inspiron Mini. In

the fourth quarter of Fiscal 2009, we launched our new Studio XPS 13, Studio XPS 16, and Inspiron 15 notebooks for consumers, and we introduced our Latitude XT2 convertible tablet for our commercial customers. This year, we also had the largest global product launch in our company's history with our new E-Series commercial Latitude and Dell Precision notebooks. We expect to continue to launch a number of new notebook products throughout Fiscal 2010, targeting various price and performance bands.

- *Small and Medium Business* — We are focused on providing small and medium businesses with the simplest and most complete IT solution, customized for their needs, by extending our channel direct program (PartnerDirect) and expanding our offerings to mid-sized businesses. We are committed to improving our storage products and services as evidenced by our new building IT-as-a-Service solution, which provides businesses with remote and lifecycle management, e-mail backup, and software license management.
- *Emerging countries* — We are focused on and investing resources in emerging countries with an emphasis on Brazil, Russia, India, and China ("BRIC"), where we expect significant growth to occur over the next several years. We are also creating customized products and services to meet the preferences and demands of individual countries and various regions, including the new Vostro A notebooks and desktops designed specifically for cost sensitive growing businesses in emerging economies.

We continue to invest in initiatives that will align our new and existing products around customers' needs in order to drive long-term, sustainable growth, profitability, and cash flow. We also continue to grow our business organically and through acquisitions. During Fiscal 2009, we acquired three companies, with the largest being MessageOne, Inc. These acquisitions are targeted to further expand our service capabilities. We expect to make more acquisitions in the future.

Result of Operations

Consolidated Operations

The following table summarizes our consolidated results of operations for each of the past three fiscal years:

	Fiscal Year Ended								
	January 30, 2009			February 1, 2008			February 2, 2007		
	% of			% of			% of		
	<u>Dollars</u>	<u>Revenue</u>	<u>%</u>	<u>Dollars</u>	<u>Revenue</u>	<u>%</u>	<u>Dollars</u>	<u>Revenue</u>	<u>%</u>
		<u>Change</u>			<u>Change</u>			<u>Change</u>	
	(in millions, except per share amounts and percentages)								
Net revenue.....	\$ 61,101	100.0%	(0%)	\$ 61,133	100.0%	6%	\$ 57,420	100.0%	
Gross margin	\$ 10,957	17.9%	(6%)	\$ 11,671	19.1%	23%	\$ 9,516	16.6%	
Operating expenses.....	\$ 7,767	12.7%	(6%)	\$ 8,231	13.5%	28%	\$ 6,446	11.2%	
Operating income.....	\$ 3,190	5.2%	(7%)	\$ 3,440	5.6%	12%	\$ 3,070	5.4%	
Income tax provision	\$ 846	1.4%	(4%)	\$ 880	1.4%	16%	\$ 762	1.3%	
Net income	\$ 2,478	4.1%	(16%)	\$ 2,947	4.8%	14%	\$ 2,583	4.5%	
Earnings per share — diluted	\$ 1.25	N/A	(5%)	\$ 1.31	N/A	15%	\$ 1.14	N/A	

Share Position — We shipped 43 million units in Fiscal 2009. According to IDC, in calendar year 2008, we maintained our second place position in the worldwide computer systems market with a share position of 15.1%. We gained share, both in the U.S. and internationally, as our worldwide growth of 11.1% for calendar 2008 exceeded the overall worldwide computer systems growth of 9.7%. Our gain in share was driven by a strong overall performance in the first half of Fiscal 2009 followed by a decline in unit shipments in our commercial business in the second half of the year, which was partially offset by strength in our global consumer business. Our commercial business's slower unit growth in the second half of Fiscal 2009 reflects our decision in an eroding demand environment to selectively pursue unit growth opportunities while protecting profitability. We will continue to focus on improving the mix of our product portfolio to higher margin products and recurring revenue streams.

Fiscal 2009 compared to Fiscal 2008

Fiscal 2009 was a year of mixed results for us. During the first half of the fiscal year we capitalized on growth opportunities and experienced double digit growth driven by increased industry demand. This growth was followed by a period of challenging economic conditions, with a decline in global IT end-user demand. As a result, during the second half of Fiscal 2009, we realigned our balance of liquidity, profitability, and growth, selectively focusing on areas that provided profitable growth opportunities. Throughout the year we took actions to reduce operating expenses and optimize product costs. While no one can predict the severity and duration of the current global economic slowdown, we are planning for a continued

challenging end-user demand environment in Fiscal 2010. We will selectively invest in strategic growth opportunities, and we will continue our activity around optimizing and transforming our cost structure.

Net Revenue — Fiscal 2009 revenue remained flat year-over-year at \$61.1 billion even though unit shipments increased 7% year-over-year. Our revenue performance is primarily attributed to a decrease in selling prices, as discussed further below. During Fiscal 2009, our global commercial business revenue declined 2% year-over-year while unit shipment remained flat as a result of the challenging economic environment that was prevalent in the second half of Fiscal 2009. Our global consumer business offset this decline in revenue by posting year-over-year revenue growth of 11% on unit growth of 35% for Fiscal 2009.

Our average selling price (total revenue per unit sold) during Fiscal 2009 decreased 7% year-over-year. Average selling prices were impacted by a change in revenue mix between our commercial and consumer business. Selling prices in our commercial business are typically higher than our consumer business selling prices. During the year our global consumer unit shipments grew significantly whereas our commercial unit shipments remained flat year over year. Our increased presence in consumer retail also contributed to our average selling price decline as retail typically has lower average selling prices than our on-line and phone direct business. Average selling prices were also impacted by a competitive pricing environment. Our market strategy has been to concentrate on solution sales to drive a more profitable mix of products and services, while pricing our products to remain competitive in the marketplace. During Fiscal 2009, we continued to

see competitive pressure, particularly for lower priced desktops and notebooks, as we targeted a broader range of products and price bands. We expect this competitive pricing environment will continue for the foreseeable future.

Revenue outside the U.S. represented approximately 48% of Fiscal 2009 net revenue. Outside the U.S., we produced 4% year-over-year revenue growth for Fiscal 2009 as opposed to a 3% decline in revenue for the U.S. The decline in our U.S. revenue is mainly attributable to our commercial business in the U.S., which was impacted by the downturn in the global economy during the second half of Fiscal 2009. Our U.S. consumer business was also impacted by the economic slowdown; however, its revenue increased 5% year-over-year, aided by our expansion into retail through an increased number of worldwide retail locations. Outside of the U.S. we continue to focus on revenue and unit growth in the BRIC countries. BRIC revenue growth during Fiscal 2009 was 20% as we are tailoring solutions to meet specific regional needs, enhancing relationships to provide customer choice and flexibility, and expanding into these and other emerging countries that represent the vast majority of the world's population. From a worldwide product perspective, the continuing decline in desktop unit sales and prices, and decreases in mobility selling prices contributed heavily to our Fiscal 2009 performance.

During Fiscal 2009, the U.S. dollar experienced significant volatility relative to the other principal currencies in which we transact business with the exception of the Japanese Yen. We manage our business on a U.S. Dollar basis, and as a result of our comprehensive hedging program, foreign currency fluctuations did not have a significant impact on our consolidated results of operations.

Operating Income — Operating income decreased 7% year-over-year to \$3.2 billion in Fiscal 2009. The decrease was Partially driven by a shift in product mix that resulted in lower average selling prices. Additionally, operating income was impacted by higher cost of sales, which lowered our gross margin percentage, partially offset by reduced operating expenses.

Net Income — For Fiscal 2009 net income decreased 16% year-over-year to \$2.5 billion. Net income was impacted by a 7% year-over-year decline in operating income, a 65% decline in investment and other income, and an increase in our effective tax rate from 23.0% to 25.4%.

Fiscal 2008 compared to Fiscal 2007

Net Revenue — Fiscal 2008 revenue increased 6% year-over-year to \$61.1 billion, with unit shipments up 5% year-over-year. Revenue grew across all segments except for Global Consumer. Revenue outside the U.S. represented approximately 47% of Fiscal 2008 net revenue, compared to approximately 44% in the prior year. Outside the U.S., we produced 14% year-over-year revenue growth for Fiscal 2008. Combined BRIC revenue growth during Fiscal 2008 was 27%. Worldwide, all product categories grew revenue over the prior year other than desktop PCs, which declined 1% as consumers continued to migrate to mobility products.

In Fiscal 2008, our average selling price increased 2% year-over-year, which primarily resulted from our pricing strategy, compared to a 1% year-over-year increase for Fiscal 2007. In Fiscal 2008, we experienced intense competitive pressure, particularly for lower priced desktops and notebooks, as competitors offered aggressively priced products with better product recognition and more relevant feature sets.

During Fiscal 2008, the U.S. dollar weakened relative to the other principal currencies in which we transact business; however, as a result of our hedging activities, foreign currency fluctuations did not have a significant impact on our consolidated results of operations.

Operating Income — Operating income increased 12% year-over-year to \$3.4 billion. The increased profitability was mainly a result of strength in mobility, solid demand for enterprise products, and a favorable component-cost environment. In Fiscal 2007, operating income was \$3.1 billion.

Net Income — Net income increased 14% year-over-year to \$2.9 billion for Fiscal 2008 from \$2.6 billion in Fiscal 2007. Net income was impacted by a \$112 million year-over-year increase in investment and other income, partially offset by an increase in our effective tax rate from 22.8% to 23.0%.

Revenues by Segment

We conduct operations worldwide. Effective in the first quarter of Fiscal 2009, we combined our consumer businesses of EMEA, APJ, and Americas International (formerly reported through Americas Commercial) with our U.S. Consumer business and re-aligned our management and financial reporting structure. As a result, effective in the first quarter of Fiscal 2009, our operating structure consisted of the following four segments: Americas Commercial, EMEA Commercial, APJ Commercial, and Global Consumer. Our commercial business includes sales to corporate, government, healthcare, education, small and medium business customers, and value-added resellers and is managed through the Americas Commercial, EMEA Commercial, and APJ Commercial segments. The Americas Commercial segment, which is based in Round Rock, Texas, encompasses the U.S., Canada, and Latin America. The EMEA Commercial segment, based in Bracknell, England, covers Europe, the Middle East, and Africa. The APJ Commercial segment, based in Singapore, encompasses the Asian countries of the Pacific Rim as well as Australia, New Zealand, and India. The Global Consumer segment, which is based in Round Rock, Texas, includes global sales and product development for individual consumers and retailers around the world. We revised previously reported operating segment information to conform to our new operating structure in effect during the first quarter of Fiscal 2009.

On December 31, 2008, we announced our intent during Fiscal 2010 to move from geographic commercial segments to global business units reflecting the impact of globalization on our customer base. Customer requirements now share more commonality based on their sector rather than physical location. We expect to combine our current Americas Commercial, EMEA Commercial, and APJ Commercial segments and realign our management structure. After this realignment, our operating structure will consist of the following segments: Global Large Enterprise, Global Public, Global Small and Medium Business ("SMB"), and our existing Global Consumer segment. We believe that these four distinct, global business organizations can capitalize on our competitive advantages and strengthen execution. We expect to begin reporting the four global business segments once we complete the realignment of our management and financial reporting structure, which is expected to be complete in the first half of Fiscal 2010.

During the second half of Fiscal 2008, we began selling desktop and notebook computers, printers, ink, and toner through retail channels in the Americas, EMEA, and APJ in order to expand our customer base. Our goal is to have strategic relationships with a number of major retailers in our larger geographic regions. During Fiscal 2009, we continued to expand our global retail presence, and we now reach over 24,000 retail locations worldwide.

The following table summarizes our net revenue by reportable segment for each of the past three fiscal years:

	Fiscal Year Ended							
	January 30, 2009			February 1, 2008			February 2, 2007	
	<u>Dollars</u>	<u>% of Revenue</u>	<u>% Change</u>	<u>Dollars</u>	<u>% of Revenue</u>	<u>% Change</u>	<u>Dollars</u>	<u>% of Revenue</u>
	—	—	—	—	—	—	—	—
	(in millions, except percentages)							
<i>Net revenue:</i>								
Americas								
Commercial	\$ 28,614	47%	(5%)	\$ 29,981	49%	6%	\$ 28,289	49%
EMEA								
Commercial	13,617	22%	0%	13,607	22%	15%	11,842	21%
APJ Commercial....	7,341	12%	2%	7,167	12%	15%	6,223	11%
Global Consumer..	11,529	19%	11%	10,378	17%	(6%)	11,066	19%
Net revenue	<u>\$ 61,101</u>	<u>100%</u>	<u>(0%)</u>	<u>\$ 61,133</u>	<u>100%</u>	<u>6%</u>	<u>\$ 57,420</u>	<u>100%</u>

Fiscal 2009 compared to Fiscal 2008

Americas Commercial — Americas Commercial revenue decreased 5% with unit shipments down 7% year-over-year for Fiscal 2009. Revenue declined across all business sectors within Americas Commercial, except for Latin America and sales to the U.S. Federal government, due to the decline in IT end-user demand environment. Growth in Latin America was led by Brazil and Argentina which experienced revenue growth of 18% and 10%, respectively, during Fiscal 2009 as compared to Fiscal 2008. Year-over-year, average selling prices increased 2% as we improved our mix of products and services during the year. From a product perspective, the revenue decline was primarily due to a decrease in desktop revenue of 14% on a unit decline of 9%, and a decrease in mobility revenue of 10% on a unit decline of 5%. Average selling prices for desktops and mobility products both decreased 6% year-over-year as a result of competitive pricing pressures due to the slowdown in IT spending. The decline in desktop and mobility sales was partially offset by revenue growth in services and software and peripherals, which increased 14% and 6%, respectively, during Fiscal 2009. We continue to focus on selling solutions to our customers to provide greater value for each dollar of spend and to bolster our average selling prices.

EMEA Commercial — During Fiscal 2009 EMEA Commercial revenue remained flat year-over-year at \$13.6 billion on unit growth of 6%. This volume growth was mainly the result of a 21% year-over-year increase in mobility shipments. Even though mobility unit shipments increased 21%, revenue only increased 8% as average selling prices for mobility products declined 10% year-over-year. Due to the decline in IT spending, downward pricing pressures negatively impacted selling prices for EMEA Commercial's mobility products as well as its desktop and servers and networking products as average selling prices for all products declined 6% year-over-year. In addition to mobility revenue growth, storage revenue and software and peripherals revenue grew 20% and 6%, respectively. Offsetting this revenue growth were year-over-year revenue declines of 11% and 5% for desktops and servers and networking, respectively. During Fiscal 2009, EMEA Commercial experienced challenging demand in Western Europe; however, there was double digit revenue growth in emerging countries such as the Czech Republic, Poland, and Ukraine. This growth, while consistent with our overall strategy, continued to drive a mix shift in the EMEA Commercial revenue base, towards products in lower price bands, which reduced average selling prices.

APJ Commercial — During Fiscal 2009, APJ Commercial experienced a 2% year-over-year increase in revenue on a unit volume increase of 10% as average revenue per unit declined 6%. Consistent with our other commercial segments, selling prices were strategically reduced to remain competitive in a slow global economy. Revenue grew across all product lines, year-over-year, except for desktop and servers and networking products. Revenue from mobility products grew 8% on a unit growth of 21%, and desktop revenue declined 2% on unit growth of 5% due to the continued shift in customer preference from desktops to notebooks. Storage, services, and software and peripherals revenue increased year-over-year by 12%, 6%, and 5%, respectively, for Fiscal 2009. From a country perspective, our targeted countries of India, the Philippines, Vietnam, and Indonesia experienced high double digit revenue growth during the year. During Fiscal 2009, year-over-year revenue growth in China, which is APJ Commercial's largest country by revenue and is also a target country, slowed significantly as revenue grew only 1% due to a weakening global economy.

Global Consumer — Global Consumer revenue increased 11% in Fiscal 2009 from Fiscal 2008 on a unit volume increase of 35%. Average revenue per unit declined 18% due to our Participation in a wider distribution of price bands including lower average sales prices realized as we expanded our presence in retail through an increased number of worldwide retail locations. Retail typically has lower average selling prices than our on-line and phone direct business. Mobility revenue grew 32% year-over-year on unit growth of 67%, and desktop revenue decreased 17% year-over-year on a unit decline of 5% as customer preference continued to shift from desktops to notebooks. Also contributing to Global Consumer's revenue growth was software and peripherals revenue increase of 13% and continued strength in emerging markets. During calendar 2008, we have grown nearly two times the industry rate of growth on a unit basis and increased our global share to 8.7%, up from 7.8% in the previous year, driven by continued success in the global retail channel and a more diversified product portfolio. This growth was led by our APJ consumer business with a 45% year-over-year increase in revenue.

Fiscal 2008 compared to Fiscal 2007

Americas Commercial — Americas Commercial grew revenue as well as units by 6% in Fiscal 2008, compared to 3% revenue growth on a slight unit decline in Fiscal 2007. The increase in revenue in Fiscal 2008 resulted from strong sales of mobility products, servers and networking, services, and software and peripherals, which grew 9%, 8%, 9%, and 13%, respectively, year-over-year. The unit volume increases resulted from growth in notebooks. In Fiscal 2007, the slowdown of net revenue growth was due to desktop weakness, lower demand, and a significant decline in our Public business due to weakening sales to federal customers.

EMEA Commercial — For Fiscal 2008, EMEA Commercial represented 22% of our total consolidated net revenue as compared to 21% in Fiscal 2007. EMEA Commercial had 15% year-over-year net revenue growth as a result of unit shipment growth of 12%. Average price per unit increased 2%, which reflects the mix of products sold and a benefit from the strengthening of the Euro and British Pound against the U.S. dollar during Fiscal 2008, which influenced our pricing strategy. The revenue growth was primarily a result of higher demand for mobility products, represented by a unit shipment increase of 30%. Additionally, revenue grew year-over-year for all product categories within EMEA Commercial, led by growth in mobility, services, and software & peripherals revenue of 23%, 32%, and 18%, respectively.

APJ Commercial — During Fiscal 2008, APJ Commercial's revenue continued to improve, with 15% revenue growth year-over-year. Consistent with the EMEA Commercial

segment, these increases were mainly a result of strong growth in mobility. Unit sales of mobility products increased 32% in Fiscal 2008 as compared to Fiscal 2007. Sales of mobility products grew due to a shift in customer preference from desktops to notebooks as well as the strong reception of our Vostro™ notebooks. APJ Commercial also reported 21% growth in servers and networking revenue primarily due to our focus on delivering greater value within customer data centers with our rack optimized server platforms, whose average selling prices are higher than our tower servers. These increases were partially offset by a decrease in services revenue of 13%.

Global Consumer — Global Consumer revenue and unit volume decreased 6% and 12%, respectively, in Fiscal 2008, compared to revenue and unit decreases of 5% and 3%, respectively, in Fiscal 2007. Global Consumer revenue declined as compared to Fiscal 2007 primarily due to a 23% decline in desktop unit volumes. In Fiscal 2008, this segment's average selling price increased 6% year-over-year mainly due to realigning prices and selling a more profitable product mix. In the fourth quarter of Fiscal 2008, the Global Consumer business began to improve and posted revenue growth of 16% over the fourth quarter of Fiscal 2007, which reflected changes we made to the business to reignite growth, including the introduction of four notebook families for consumers.

For additional information regarding our reportable segments, see Note 11 of Notes to Consolidated Financial Statements included in "Part II — Item 8 — Financial Statements and Supplementary Data."

Revenue by Product and Services Categories

The following table summarizes our net revenue by product category:

	Fiscal Year Ended								
	January 30, 2009			February 1, 2008			February 2, 2007		
	<u>Dollars</u>	<u>% of Revenue</u>	<u>% Change</u>	<u>Dollars</u>	<u>% of Revenue</u>	<u>% Change</u>	<u>Dollars</u>	<u>% of Revenue</u>	
(in millions, except percentages)									
<i>Net revenue:</i>									
Mobility	\$ 18,638	31%	7%	\$ 17,423	28%	13%	\$ 15,480	27%	
Desktop PCs.....	17,244	29%	(12%)	19,573	32%	(1%)	19,815	34%	
Software and peripherals	10,603	17%	7%	9,908	16%	10%	9,001	16%	
Servers and networking	6,275	10%	(3%)	6,474	11%	12%	5,805	10%	
Services	5,715	9%	7%	5,320	9%	5%	5,063	9%	
Storage	<u>2,626</u>	<u>4%</u>	<u>8%</u>	<u>2,435</u>	<u>4%</u>	<u>8%</u>	<u>2,256</u>	<u>4%</u>	
Net revenue	<u>\$ 61,101</u>	<u>100%</u>	<u>(0%)</u>	<u>\$ 61,133</u>	<u>100%</u>	<u>6%</u>	<u>\$ 57,420</u>	<u>100%</u>	

Fiscal 2009 compared to Fiscal 2008

Mobility — During Fiscal 2009 revenue from mobility products (which includes notebook computers and mobile workstations) grew 7% on unit growth of 24%. According to IDC, our unit growth rate for calendar 2008 was 31%, which was consistent with the industry's growth rate of 32%. The average selling prices of our mobility products across all of our segments dropped 14% year-over-year due to a soft demand environment and the continued expansion into retail by our Global Consumer segment due to an increased number of worldwide retail locations. Expansion into retail also contributed to our overall revenue growth as mobility revenue in Global Consumer increased 32% year-over-year on unit growth of 67%, as opposed to a decline in mobility revenue of 2% on unit growth of 7% in our global commercial business. APJ Commercial and EMEA Commercial both grew revenue by 8% on unit growth of 21%. However, Americas Commercial mobility revenue declined 10% year-over-year for Fiscal 2009 on a unit decline of 5% as we experienced conservative customer spending across all business sectors within Americas Commercial, including Latin America. The slow revenue growth in our commercial business can also be partially attributed to our transition to the new Latitude™ E-Series and Dell Precision notebook product lines during the second half of Fiscal 2009. Our new product lines range from the lightest ultra-portable in our history to the most powerful mobile workstation. We believe the on-going trend to mobility products will continue, and we are therefore focused on expanding our product platforms to cover broader price bands and functionalities.

In Fiscal 2009, we have launched industry leading mobility products such as the Inspiron 1525, Vostro, and 3G enabled Inspiron Mini. We also launched our ruggedized Latitude™ XFR, which is designed for reliable performance in the harshest environments, and introduced our completely new line of Latitude™ and Dell Precision notebooks. We introduced the Vostro™ A-Series and the Dell 500 during Fiscal 2009, which were specifically designed for emerging countries. All of our commercial products in emerging countries are now cost optimized. We will continue our cost optimization efforts in remaining products in Fiscal 2010.

Desktop PCs — During Fiscal 2009 revenue from desktop PCs (which includes desktop computer systems and workstations) decreased year-over-year 12% on a unit decline of 4%. The decline was primarily due to the on-going competitive pricing pressure for lower priced desktops and a softening in global IT end-user demand. Consequently, our average selling price for desktops decreased 8% year-over-year during Fiscal 2009 as we aligned our prices and product offerings with the

marketplace. For Fiscal 2009, desktop revenue decreased across all segments. Our Global Consumer, Americas Commercial, EMEA Commercial, and APJ Commercial segments experienced year-over-year revenue declines of 17%, 14%, 11% and 2% respectively. We are continuing to see rising end-user demand for mobility products, which contributes to further slowing demand for desktop PCs as mobility growth is expected to continue to outpace desktop growth. During Fiscal 2009, we introduced four new models of our OptiPlex™ commercial desktop systems. These systems cut power consumption by up to 43%, speed serviceability time by more than 40% versus our competition, and include a portfolio of services that can be accessed by the user as needed.

Software and Peripherals — Revenue from sales of software and peripherals ("S&P") consists of Dell-branded printers, monitors (not sold with systems), projectors, and a multitude of competitively priced third-Party peripherals including plasma and LCD televisions, software, and other products. This revenue grew 7% year-over-year for Fiscal 2009, driven by strength in software licensing primarily due to our acquisition of ASAP Software ("ASAP") in the fourth quarter of Fiscal 2008. With ASAP, we now offer products from over 2,000 software publishers. At a segment level, Global Consumer led the revenue growth with a 13% year-over-year growth rate for Fiscal 2009. EMEA Commercial and Americas Commercial both experienced revenue growth of 6% during Fiscal 2009. S&P revenue for APJ Commercial increased 5% year-over-year during Fiscal 2009. We continue to believe that software licensing is a revenue growth opportunity as customers continue to seek out consolidated software sources.

Servers and Networking — During Fiscal 2009 revenue from sales of servers and networking products decreased 3% year-over-year on a unit increase of 4%. The decline in our server and networking revenue is due to demand challenges across all regions. To address the demand challenges and drive growth, we adjusted our pricing and product strategy to shift our product offerings to lower price bands. Consequently, our average selling price for servers and networking products decreased 7% year-over-year during Fiscal 2009. During Fiscal 2009, we experienced double digit growth in blades, 4-Socket rack servers, and our cloud computing initiatives. We expanded our server coverage to 88% of the server space, and we plan to increase our coverage to 95% next year. For calendar 2008, we were again ranked number one in the United States with a 35% share in server units shipped; worldwide, we were second with a 26% share. During the fiscal year, we have released our broadest lineup of dedicated virtualization solutions ever, including

more than a dozen new servers, tools, and services, as a Part of our mission to help companies of all sizes simplify their IT environments.

Services — Services consists of a wide range of services including assessment, design and implementation, deployment, asset recovery and recycling, training, enterprise support, client support, and managed lifecycle. Services revenue increased 7% year-over-year for Fiscal 2009 to \$5.7 billion, as our annuity of deferred services revenue amortization increases in our Americas Commercial segment and a 10% year-over-year increase in consulting services revenue for Fiscal 2009. The increase in services revenue was also aided by our new ProSupport offerings, which distilled ten service offerings down to two customizable packages spanning our commercial product and solutions portfolios with flexible options for service level and proactive management. We also expanded our services business with new offerings in enterprise solutions and remote infrastructure management. For Fiscal 2009, Americas Commercial and APJ Commercial led year-over-year revenue growth with increases of 14% and 6%, respectively. EMEA Commercial revenue declined 1% for Fiscal 2009. Our deferred service revenue balance increased 7% year-over-year to \$5.6 billion at January 30, 2009, primarily due to strong unit growth in the first half of Fiscal 2009. We continue to view the services as a strategic growth opportunity and will continue to invest in our offerings and resources focused on increasing our solution sales.

Storage — Revenue from sales of storage products increased 8% year-over-year for Fiscal 2009. Year-over-year storage growth was led by strength in our PowerVault line and the strong performance of our EqualLogic iSCSI networked storage solutions, which we acquired in Fiscal 2008. EMEA Commercial, APJ Commercial, and Americas Commercial all contributed to the increase in storage revenue with year-over-year growth of 20%, 12% and 2%, respectively, for Fiscal 2009. During the fiscal year, we expanded our storage portfolio by adding increasingly flexible storage choices that allow customers to grow capacity, add performance and protect their data in a more economical manner.

Fiscal 2008 compared to Fiscal 2007

Mobility — In Fiscal 2008, revenue from mobility products grew 13% year-over-year on unit growth of 16%. The growth was led by the APJ Commercial and EMEA Commercial segments with 35% and 23% increases in revenue year-over-year, respectively, while Americas Commercial revenue increased 9%. Unit shipments grew year-over-year in these three segments by 32%, 30%, and 19%, respectively. Global Consumer mobility units were flat during Fiscal 2008 as compared to Fiscal 2007. Even

though we posted mobility unit growth of 16% during Fiscal 2008, according to IDC, our growth was below the industry's growth of 34% during calendar 2007. To capitalize on the industry growth in mobility, we separated our consumer and commercial design functions — focusing our consumer team on innovation and shorter design cycles. As a result, we launched four consumer notebook families, including Inspiron™ color notebooks and XPS™ notebooks, for which the demand was better than expected. We also introduced Vostro™ notebooks, specifically designed to meet the needs of small business customers. During the fourth quarter of Fiscal 2008, we launched our first tablet — the Latitude™ XT, the industry's only sub-four pound convertible tablet with pen and touch capability.

Desktop PCs — During Fiscal 2008, revenue from desktop PCs decreased slightly from Fiscal 2007 revenue on a unit decline of 2% even though worldwide industry unit sales grew 5% during calendar 2007. The decline was primarily due to us being out of product feature and price position and consumers migrating to mobility products. Our Global Consumer segment continued to perform below expectation in Fiscal 2008 with a 13% year-over-year decrease in desktop revenue. Global Consumer was the primary contributor to our worldwide full year decline in desktop revenue with Americas Commercial also contributing to the weaker performance during Fiscal 2008 as compared to Fiscal 2007. The decline was partially offset by a strong performance in APJ Commercial where desktop revenue and units both increased 13% during Fiscal 2008 over prior year. In Fiscal 2008, we introduced Vostro™ desktops specifically designed to meet the needs of small business customers.

Software and Peripherals — In Fiscal 2008, S&P revenue increased 10% year-over-year. EMEA Commercial lead S&P revenue growth with a year-over-year increase of 18%, and Americas Commercial and APJ Commercial revenue growth was 13% and 12%, respectively, during Fiscal 2008 as compared to Fiscal 2007. The increase in S&P revenue was primarily attributable to strength in imaging and printing, digital displays, and software licensing. We also acquired ASAP during the year as we believe having stronger software licensing offerings and related customer management tools are areas of strategic opportunity.

Servers and Networking — In Fiscal 2008, servers and networking revenue grew 12% on unit growth of 6% year-over-year as compared to industry unit growth of 8%. Our unit growth was slightly behind the growth in the overall industry, while we improved our product feature sets by transitioning to new platforms, and as we managed

through the realignment of certain portions of our sales force to address sales execution deficiencies. A significant portion of the revenue growth was due to higher average selling prices, which increased 5% during Fiscal 2008 as compared to the prior year. Fourth quarter year-over-year revenue growth of 2% was below industry growth and our expectations as conservatism in the U.S. commercial sectors affected sales of our server products. All regions experienced strong year-over-year revenue growth with APJ Commercial leading the way with 21% growth on unit growth of 6%; additionally, server and networking revenue increased 16% and 8% in EMEA Commercial and Americas Commercial, respectively. For Fiscal 2008, we were again ranked number one in the United States with a 34% share in server units shipped; worldwide we were second with a 25% share. Servers and networking remains a strategic focus area. Late in the fourth quarter, we launched our 10G blade servers — the most energy efficient blade server solution on the market. Our PowerEdge servers were ranked number one in server benchmark testing for overall performance, energy efficiency, and price.

Services — In Fiscal 2008, revenue from services (which includes the sale and servicing of our extended product warranties) increased 5% year-over-year compared to a 20% increase in Fiscal 2007. EMEA Commercial drove services revenue growth with a 32% increase in Fiscal

2008 as compared to Fiscal 2007, and Americas Commercial contributed with 9% revenue growth. This growth was offset by revenue declines in Global Consumer and APJ Commercial of 25% and 13%, respectively. Strong Fiscal 2008 services sales increased our deferred service revenue balance by approximately \$1.0 billion in Fiscal 2008, a 25% increase to approximately \$5.3 billion. During Fiscal 2008, we acquired a number of service technologies and capabilities through acquisitions of certain companies. These capabilities are being used to build-out our mix of service offerings. We are continuing to make progress in services including ProSupport, remote infrastructure management, and Software as a Service (SaaS), which are aimed at simplifying IT for our customers.

Storage — In Fiscal 2008, storage revenue increased 8% as compared to a 21% increase in Fiscal 2007. The revenue growth was led by EMEA Commercial, which experienced strong growth of 18%; additionally, APJ Commercial and Americas Commercial increased 10% and 5%, respectively. In Fiscal 2008, we expanded both our PowerVault and Dell | EMC solutions that drove both additional increases in performance and customer value. During the fourth quarter of Fiscal 2008, we completed the acquisition of EqualLogic, Inc., an industry leader in iSCSI SANs. With this acquisition, we now provide much broader product offerings for small and medium business consumers.

Gross Margin

The following table presents information regarding our gross margin during each of the past three fiscal years:

	Fiscal Year Ended							
	January 30, 2009			February 1, 2008			February 2, 2007	
	% of	%		% of	%		% of	
	Dollars	Revenue	Change	Dollars	Revenue	Change	Dollars	Revenue
	(in millions, except percentages)							
Net revenue	\$ 61,101	100.0%	(0%)	\$ 61,133	100.0%	6%	\$ 57,420	100.0%
Gross margin	\$ 10,957	17.9%	(6%)	\$ 11,671	19.1%	23%	\$ 9,516	16.6%

Fiscal 2009 compared to Fiscal 2008

During Fiscal 2009, our gross margin decreased in absolute dollars by \$714 million compared to the prior year with a corresponding decrease in gross margin percentage to 17.9% from 19.1%. As a result of competitive pricing pressures and further expansion into retail through an increased number of worldwide retail locations, there was a decrease in our average selling prices, which contributed to a decline in gross margin. The year-over-year gross margin percentage decline can be

further attributed to the fact that Fiscal 2008 witnessed unusually high component costs declines, whereas Fiscal 2009 component cost declines returned to more typical levels. During Fiscal 2009 we made continued progress against our ongoing cost improvement initiatives, which resulted in a number of new cost optimized product launches during the second half of 2009.

We continue to actively review all aspects of our facilities, logistics, supply chain, and manufacturing footprints. This review is focused on identifying efficiencies and cost reduction opportunities while maintaining a strong customer experience. Examples of this include the closure of our desktop manufacturing facility in Austin, Texas, the sale of our call center in El Salvador, and the recent announcement of our migration and closure of manufacturing operations from our Limerick, Ireland facility to our Polish facility and third Party manufacturers. The cost of these actions and other severance and business realignment reductions was \$282 million in Fiscal 2009, of which approximately \$146 million affected gross margin. We expect to continue to reduce headcount, and we may realign or close additional facilities depending on a number of factors, including end-user demand, capabilities, and our migration to a more variable cost manufacturing model. These actions will result in additional business realignment costs in the future, although no plans were finalized at January 30, 2009.

We continue to evaluate and optimize our global manufacturing and distribution network, including our relationships with original design manufacturers, to better meet customer needs and reduce product cycle times. Our goal is to introduce the latest relevant technology and to deliver the best value to our customers worldwide. As we continue to evolve our inventory and manufacturing business model to capitalize on component cost declines, we continuously negotiate with our suppliers in a variety of areas including availability of supply, quality, and cost. These real-time continuous supplier negotiations support our business model, which is able to respond quickly to changing market conditions

due to our direct customer model and real-time manufacturing. Because of the fluid nature of these ongoing negotiations, the timing and amount of supplier discounts and rebates vary from time to time. These discounts and rebates are allocated to the segments based on a variety of factors including strategic initiatives to drive certain programs.

In general, gross margin and margins on individual products will remain under downward pressure due to a variety of factors, including continued industry wide global pricing pressures, increased competition, compressed product life cycles, potential increases in the cost and availability of raw materials, and outside manufacturing services. We will continue to adjust our pricing strategy with the goals of remaining in competitive price position while maximizing margin expansion through new higher margin products and lower cost optimized design and services where appropriate.

Fiscal 2008 compared to Fiscal 2007

During Fiscal 2008, our gross margin increased in absolute dollars and as a percentage of revenue from Fiscal 2007, driven by greater cost declines. The cost environment was more favorable in the first half of Fiscal 2008 than the second half, which resulted in a decline in our gross margin percentage from 19.6% in the first half to 18.6% in the second half of the year. The fourth quarter of Fiscal 2008 was positively impacted by a \$58 million reduction in accrued liabilities for a one-time adjustment related to a favorable ruling by the German Federal Supreme Court on a copyright levy case.

Operating Expenses

The following table presents information regarding our operating expenses during each of the past three fiscal years:

	Fiscal Year Ended							
	January 30, 2009			February 1, 2008			February 2, 2007	
	% of	%		% of	%		% of	
	Dollars	Revenue	Change	Dollars	Revenue	Change	Dollars	Revenue
	(in millions, except percentages)							
<i>Operating expenses:</i>								
Selling, general, and administrative	\$ 7,102	11.6%	(6%)	\$ 7,538	12.4%	27%	\$ 5,948	10.3%
Research, development, and engineering.....	663	1.1%	9%	610	1.0%	22%	498	0.9%
In-process research and development	<u>2</u>	<u>0.0%</u>	(98%)	<u>83</u>	<u>0.1%</u>	N/A	<u>-</u>	<u>-</u>
Operating expenses ..	<u>\$ 7,767</u>	<u>12.7%</u>	(6%)	<u>\$ 8,231</u>	<u>13.5%</u>	28%	<u>\$ 6,446</u>	<u>11.2%</u>

Fiscal 2009 compared to Fiscal 2008

Selling, General, and Administrative — During Fiscal 2009, selling, general, and administrative (“SG&A”) expenses decreased 6% to \$7.1 billion from \$7.5 billion in Fiscal 2008. Compensation and benefits expense, excluding expenses related to headcount and infrastructure reductions, decreased approximately \$250 million in Fiscal 2009 compared to Fiscal 2008, driven primarily by decreases in bonus-related expenses due to weaker company performance versus bonus plan targets and lower sales commission expenses. Compensation-related expenses also included \$73 million of stock option acceleration in Fiscal 2009, while Fiscal 2008 included \$76 million for the cash payments made for expiring stock options. Additionally, with the increase in retail volumes and the associated cooperative advertising programs, as well as other factors, advertising expenses decreased approximately \$130 million from Fiscal 2008. Furthermore, costs associated with the ongoing U.S. Securities and Exchange Commission (“SEC”) investigation and the Audit Committee’s now completed independent investigation decreased by \$117 million from \$160 million for Fiscal 2008 to \$43 million for Fiscal 2009. These decreases were partially offset by an increase in SG&A expenses related to headcount and infrastructure reductions through our on-going cost optimization efforts, which were \$136 million for Fiscal 2009 compared to \$92 million for Fiscal 2008.

Research, Development, and Engineering — Research, development, and engineering (“RD&E”) expenses increased 9% to \$663 million for Fiscal 2009 compared to \$610 million for Fiscal 2008, remaining at approximately 1% of revenue for both fiscal years. The increase in RD&E expense is primarily due to approximately \$45 million increase in compensation and benefits expenses as we continue to expand our research and development activities in our EqualLogic and Data Center Solutions offerings. We manage our research, development, and engineering spending by targeting those innovations and products that are most valuable to our customers and by relying upon the capabilities of our strategic Partners. We will continue to invest in research, development, and engineering activities to support our growth and to provide for new, competitive products. We have obtained 2,253 worldwide patents and have applied for 2,514 additional worldwide patents as of January 30, 2009.

In-Process Research and Development — We recognized in-process research and development (“IPR&D”) charges in connection with acquisitions accounted for as business combinations, as more fully described in Note 7 of Notes to Consolidated Financial Statements included in “Part II — Item 8 — Financial Statements and Supplementary Data.” We recorded IPR&D charges of \$2 million during Fiscal 2009 and \$83 million during Fiscal 2008. Prior to Fiscal 2008, there were no IPR&D charges related to acquisitions.

In May 2007, we announced that we had initiated a comprehensive review of costs across all processes and organizations with the goal to simplify structure, eliminate redundancies, and better align operating expenses with the current business environment and strategic growth opportunities. These efforts are continuing. Since the second quarter of Fiscal 2008 and through the end of Fiscal 2009, we have reduced headcount by approximately 13,500 and closed some of our facilities. We expect to take further actions to reduce costs and invest in strategic growth areas while focusing on scaling costs and improving productivity.

Fiscal 2008 compared to Fiscal 2007

Selling, General, and Administrative — During Fiscal 2008, SG&A expenses increased 27% to \$7.5 billion. The increase was primarily due to higher compensation and benefits expense, increased outside consulting fees, and investigation costs. Compensation-related expenses and expenses related to headcount and infrastructure reductions increased approximately \$1.0 billion in Fiscal 2008 compared to Fiscal 2007. This increase was driven both by bonus-related expenses, which increased substantially compared to Fiscal 2007 when bonuses were paid at a reduced amount, as well as an increased average headcount for Fiscal 2008. The increase in compensation related expenses also includes \$76 million (of the total of \$107 million) of additional expense for cash payments for expiring stock options. SG&A expenses related to headcount and infrastructure reductions were \$92 million for Fiscal 2008, and expenses related to the SEC and Audit Committee investigations were \$160 million and \$100 million for Fiscal 2008 and Fiscal 2007, respectively.

Research, Development, and Engineering — During Fiscal 2008, RD&E expenses increased 22% to \$610 million compared to \$498 million in Fiscal 2007. The increase in research, development, and engineering was primarily driven by significantly higher compensation costs. The higher compensation costs are Partially attributed to increased focused investments in research and development (“R&D”), which are critical to our future growth and competitive position in the marketplace. During Fiscal 2008, we implemented our “Simplify IT” initiative for our customers. R&D is the foundation for this initiative, which is aimed at allowing customers to deploy IT faster, run IT at a lower total cost, and grow IT smarter.

Operating Income

Fiscal 2009 compared to Fiscal 2008

Operating income decreased 7% year-over-year to \$3.2 billion in Fiscal 2009 from \$3.4 billion in Fiscal 2008. The decrease in operating income is primarily attributable to our gross margin decline, partially offset by a 6% reduction in operating expenses year-over-year due to factors discussed in the Operating Expenses section. During Fiscal 2009, we experienced customer and product mix shift as our global consumer business grew significantly in both units and revenue as compared to Fiscal 2008 and as our commercial business revenue declined on flat unit shipments during the same time period. Also impacting operating income was the decline in profitability in our EMEA Commercial segment and higher than historical average declines in component costs in Fiscal 2008, which returned to more typical declines in Fiscal 2009.

Americas Commercial — For Fiscal 2009, operating income percentage increased 40 basis points year-over-year. Operating income improved as a result of a year-over-year 2% increase in average selling prices due to an improved mix of products and services and lower component costs during the second half of Fiscal 2009. Additionally, operating expenses declined 4% year-over-year as we managed our operating expenses tightly and streamlined our organizational operations.

EMEA Commercial — For Fiscal 2009, operating income percentage decreased approximately 300 basis points from Fiscal 2008, and operating income dollars decreased 44% while revenue remained flat. Operating income dollars and percentage were adversely impacted by a 6% decrease in average selling prices as sales mix shifted toward lower price bands, especially in notebooks. Operating income dollars and percentage were also adversely impacted by weaker western European markets coupled with significant growth in emerging markets where product sales are generally in the lower price and profitability bands. Also impacting operating income was a 2% year-over-year increase in operating expenses as well as increases in severance and business realignment expenses.

APJ Commercial — Operating income percentage increased approximately 30 basis points year-over-year from Fiscal 2008, and operating income dollars increased 8% on a revenue increase of 2% due to lower component costs and an improved mix of products and services.

Partially offsetting the operating income improvement was a year-over-year increase in operating expenses of 7% during Fiscal 2009 mainly due to increased severance and business realignment expenses.

Global Consumer — Global Consumer's operating income percentage increased year-over-year by approximately 120 basis points to 1%, and operating income dollars grew from \$2 million in Fiscal 2008 to \$143 million in Fiscal 2009 on revenue and unit growth of 11% and 35%, respectively. Operating income was negatively impacted by an 18% year-over-year decrease in average selling prices for Fiscal 2009 as we participated in a broader spectrum of consumer product opportunities and continued our expansion into retail. Additionally, operating expenses declined 19% year-over-year as we began to realize the benefits from our cost-improvement initiatives. In the near-term, we expect the operating income percentage for Global Consumer to be in the 1%-2% range as we balance profitability, liquidity and growth in our expansion in this strategic market.

Fiscal 2008 compared to Fiscal 2007

Operating income increased 12% year-over-year to \$3.4 billion. The increased profitability was mainly a result of strength in mobility, solid demand for enterprise products, and a favorable component-cost environment. In Fiscal 2007, operating income was \$3.1 billion.

Americas Commercial — For Fiscal 2008, operating income percentage increased 30 basis points year-over-year, and operating income dollars grew 9% year-over-year mainly due to lower component costs. The operating income improvement was partially offset by a year-over-year increase in operating expenses of 26%.

EMEA Commercial — For Fiscal 2008, operating income percentage increased approximately 200 basis points from Fiscal 2007, and operating income dollars increased due to significantly stronger gross margins. Partially offsetting this growth was a 170 basis points increase in operating expenses as a percent of revenue.

APJ Commercial — Operating income percentage increased 50 basis points year-over-year from Fiscal 2007, and operating income dollars increased 27% on revenue growth of 15%. Impacting the growth in operating income

was lower component costs in Fiscal 2008 as compared to Fiscal 2007 Partially offset by a year-over-year increase in operating expenses as a percentage of revenue.

Global Consumer — Global Consumer's operating income percentage decreased year-over-year by approximately 120 basis points, and operating income dollars declined from \$130 million in Fiscal 2007 to \$2 million in Fiscal 2008 on revenue and unit decline of 6% and 12%, respectively. A significant improvement in gross margins was more than offset by a 23% increase in operating expenses and our expansion into retail during the second half of Fiscal 2008.

Stock-Based Compensation

We use the 2002 Long-Term Incentive Plan, amended in December 2007, for stock-based incentive awards. These awards can be in the form of stock options, stock appreciation rights, stock bonuses, restricted stock, restricted stock units, performance units, or performance shares.

Stock-based compensation expense totaled \$418 million for Fiscal 2009, compared to \$436 million and \$368 million for Fiscal 2008 and Fiscal 2007, respectively. Stock-based compensation expense for Fiscal 2009 includes \$104 million of expense for accelerated options, and Fiscal 2008 includes cash payments of \$107 million made for expired in-the-money stock options. Both of these items are discussed below.

We adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), *Share-Based Payment* ("SFAS 123(R)") using the modified prospective transition method under SFAS 123(R) effective the first quarter of Fiscal 2007. Included in stock-based compensation is the fair value of stock-based awards earned during the year, including restricted stock, restricted stock units, and stock options, as well as the discount associated with stock purchased under our employee stock purchase plan ("ESPP"). The ESPP was discontinued effective February 2008 as part of an overall assessment of our benefits strategy. For further discussion on stock-based compensation, see Note 5 of Notes to Consolidated Financial Statements included in "Part II — Item 8 — Financial Statements and Supplementary Data."

At January 30, 2009, there was \$1 million and \$507 million of total unrecognized stock-based compensation expense related to stock options and non-vested restricted stock, respectively, with the unrecognized

stock-based compensation expense expected to be recognized over a weighted-average period of 2.3 years and 2.0 years, respectively. At February 1, 2008, there was \$93 million and \$600 million of total unrecognized stock-based compensation expense related to stock options and non-vested restricted stock, respectively, with the unrecognized stock-based compensation expense expected to be recognized over a weighted-average period of 2.0 years and 1.9 years, respectively. At February 2, 2007, there was \$139 million and \$356 million of total unrecognized stock-based compensation expense related to stock options and non-vested restricted stock, respectively, with the unrecognized stock-based compensation expense expected to be recognized over a weighted-average period of 1.7 years and 2.4 years, respectively.

On January 23, 2009, our Board of Directors approved the acceleration of the vesting of unvested "out-of-the-money" stock options (options that have an exercise price greater than the current market stock price) with exercise prices equal to or greater than \$10.14 per share for approximately 2,800 employees holding options to purchase approximately 21 million shares of common stock. We concluded the modification to the stated vesting provisions was substantive after we considered the volatility of our share price and the exercise price of the amended options in relation to recent share values. Because the modification was considered substantive, the remaining unearned compensation expense of \$104 million was recorded as an expense in Fiscal 2009. The weighted-average exercise price of the options that were accelerated was \$21.90.

Due to our inability to timely file our Annual Report on Form 10-K for Fiscal 2007, we suspended the exercise of employee stock options, the vesting of restricted stock units, and the purchase of shares under the ESPP on April 4, 2007. As a result, we decided to pay cash to current and former employees who held in-the-money stock options (options that had an exercise price less than the then current market price of the stock) that expired during the period of unexercisability. We made payments of approximately \$107 million in Fiscal 2008, which were expensed, relating to expired in-the-money stock options. We resumed allowing the exercise of employee stock options by employees and the settlement of restricted stock units on October 31, 2007. The purchase of shares under the ESPP was not resumed as the plan was discontinued during the first quarter of Fiscal 2009.

Investment and Other Income, net

The table below provides a detailed presentation of investment and other income, net for Fiscal 2009, 2008, and 2007.

	Fiscal Year Ended		
	January 30, 2009	February 1, 2008	February 2, 2007
	(in millions)		
Investment and other income, net:			
Investment income, primarily interest.....	\$ 180	\$ 496	\$ 368
(Losses) gains on investments, net	(10)	14	(5)
Interest expense.....	(93)	(45)	(45)
CIT minority interest	-	(29)	(23)
Foreign exchange	115	(30)	(37)
Gain on sale of building	-	-	36
Other	(58)	(19)	(19)
Investment and other income, net	<u>\$ 134</u>	<u>\$ 387</u>	<u>\$ 275</u>

The year-over-year decrease in investment income for the fiscal year ended January 30, 2009, is primarily due to decreased interest rates on lower average investment balances. Gain (losses) on investments decreased for Fiscal 2009 as compared to Fiscal 2008, primarily due to a \$11 million loss recorded for other-than-temporarily impaired investments during Fiscal 2009 based on a review of factors consistent with those disclosed in Note 2 of Notes to Consolidated Financial Statements included "Part II — Item 8 — Financial Statements and Supplementary Data" and due to sales of securities during Fiscal 2008. We continue to monitor our investment portfolio and take steps to mitigate impacts from the current volatility in the capital markets. The year-over-year increase in interest expense is attributable to interest on the \$1.5 billion debt issued in the first quarter of Fiscal 2009. CIT minority interest was eliminated due to our purchase of CIT Group Inc.'s ("CIT") 30% interest in Dell Financial Services L.L.C. ("DFS") during the fourth quarter of Fiscal 2008. Foreign exchange increased year-over-year for Fiscal 2009 due to gains realized on our hedge program. During Fiscal 2009, we recognized a \$35 million decline in the fair market value of our investments related to our deferred compensation plan. These expenses are included in Other in the table above.

In addition to the gains realized from revaluation of our unhedged currencies, the year-over-year increase in foreign exchange for Fiscal 2009, as compared to the prior year, is due to a \$42 million gain in Fiscal 2009 resulting from the correction of errors in the remeasurement of certain local currency balances to the functional currency in prior periods. A deferred revenue liability was incorrectly remeasured over time based on changes in

currency exchange rates instead of remaining at historical exchange rates. There was also a tax liability incorrectly held at a historical rate instead of being remeasured over time based on changes in currency exchange rates.

The increase in investment income in Fiscal 2008 from Fiscal 2007 is primarily due to earnings on higher average balances of cash equivalents and investments, partially offset by lower interest rates. In Fiscal 2007, investment income increased from the prior year primarily due to rising interest rates, partially offset by a decrease in interest income earned on lower average balances of cash equivalents and investments. The gains in Fiscal 2008 as compared to losses in Fiscal 2007 are mainly the result of sales of securities. The foreign exchange loss in Fiscal 2008 and Fiscal 2007 is mainly due to higher net losses on derivative instruments. The gain on sale of building relates to the sale of a building in EMEA.

Income Taxes

Our effective tax rate was 25.4%, 23.0%, and 22.8% for Fiscal 2009, 2008, and 2007, respectively. The differences between our effective tax rate and the U.S. federal statutory rate of 35% principally result from our geographical distribution of taxable income and permanent differences between the book and tax treatment of certain items. The increase in our effective income tax rate for Fiscal 2009 from Fiscal 2008 is primarily due to an increased mix of profits in higher tax rate jurisdictions. In the fourth quarter of Fiscal 2008, we were able to access \$5.3 billion in cash from a subsidiary outside of the U.S. to fund share repurchases, acquisitions, and the continued growth of DFS. Accessing the cash slightly increased our effective tax rate in Fiscal

2008. The taxes related to accessing the foreign cash and nondeductibility of the in-process research and development acquisition charges were offset primarily by the increase of our consolidated profitability in lower tax rate jurisdictions during Fiscal 2008. Our foreign earnings are generally taxed at lower rates than in the United States. We do not expect our Fiscal 2010 effective tax rate to vary significantly from our Fiscal 2009 effective tax rate.

Deferred tax assets and liabilities for the estimated tax impact of temporary differences between the tax and book basis of assets and liabilities are recognized based on the enacted statutory tax rates for the year in which we expect the differences to reverse. A valuation allowance is established against a deferred tax asset when it is more likely than not that the asset or any portion thereof will not be realized. Based upon all the available evidence including expectation of future taxable income, we have determined that we will be able to realize all of our deferred tax assets, net of valuation allowances.

We adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No.109* (“FIN 48”) effective February 3, 2007. FIN48 clarifies the accounting and reporting for uncertainties in income taxes recognized in our financial statements in accordance with SFAS 109, *Accounting for Income Taxes* (“SFAS 109”). FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. FIN48 provides that a tax benefit from an uncertain tax position may be recognized in the financial statements only when it is more likely than not that the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits and a consideration of the relevant taxing authority’s widely understood administrative practices and precedents. Once the recognition threshold is met, the portion of the tax benefit that is recorded represents the largest amount of tax benefit that is greater than 50 percent likely to be realized upon settlement with a taxing authority. The adoption of FIN48 resulted in a decrease to stockholders’ equity of approximately \$62 million in the first quarter of Fiscal 2008. For a further discussion of the impact of FIN48, see Note 3 of Notes to Consolidated Financial Statements included in “Part II — Item 8 — Financial Statements and Supplementary Data.”

We are currently under income tax audits in various jurisdictions, including the United States. The tax periods open to examination by the major taxing jurisdictions to which we are subject include fiscal years 1997 through 2009. As a result of these audits, we maintain ongoing discussions and negotiations relating to tax matters with the taxing authorities in these various jurisdictions. Our U.S. Federal income tax returns for fiscal years 2004 through 2006 are under examination, and the Internal Revenue Service has proposed certain preliminary assessments primarily related to transfer pricing matters. We anticipate this audit will take several years to resolve and continue to believe that we have provided adequate reserves related to the matters under audit. However, should we experience an unfavorable outcome in this matter, it could have a material impact on our financial statements. Although the timing of income tax audit resolution and negotiations with taxing authorities are highly uncertain, we do not anticipate a significant change to the total amount of unrecognized income tax benefits within the next 12 months.

We take certain non-income tax positions in the jurisdictions in which we operate and have received certain non-income tax assessments from various jurisdictions. We are also involved in related non-income tax litigation matters in various jurisdictions. We believe our positions are supportable, a liability is not probable, and that we will ultimately prevail. However, significant judgment is required in determining the ultimate outcome of these matters. In the normal course of business, our positions and conclusions related to our non-income taxes could be challenged and assessments may be made. To the extent new information is obtained and our views on our positions, probable outcomes of assessments, or litigation changes, changes in estimates to our accrued liabilities would be recorded in the period in which the determination is made.

Out of Period Adjustments

During Fiscal 2009, adjustments to correct Items related to prior periods, in the aggregate, increased income before taxes and net income by approximately \$95 million and \$33 million, respectively. Because these errors, both individually and in the aggregate, were not material to any of the prior years’ financial statements and the impact of correcting these errors in the current year is not material to the full year Fiscal 2009 Consolidated Financial Statements, we recorded the correction of these errors in the Fiscal 2009 Consolidated Financial Statements.

Accounts Receivable

We sell products and services directly to customers and through a variety of sales channels, including retail distribution. At January 30, 2009, our gross accounts receivable balance was \$4.8 billion, a 20% decrease from our balance at February 1, 2008. This decrease in accounts receivable was due to lower sales in the second half of Fiscal 2009 as compared to the prior year. We maintain an allowance for doubtful accounts to cover receivables that may be deemed uncollectible. The allowance for losses is based on specific identifiable customer accounts that are deemed at risk and general historical bad debt experience. As of January 30, 2009 and February 1, 2008, the allowance for doubtful accounts was \$112 million and \$103 million, respectively. Based on our assessment, we believe we are adequately reserved for expected credit losses. We monitor the aging of our accounts receivable and have taken actions in Fiscal 2009 to reduce our exposure to credit losses, including tightening our credit granting practices.

Financing Receivables

At January 30, 2009 and February 1, 2008, our net financing receivables balance was \$2.2 billion and \$2.1 billion respectively. The increase in financing receivables is primarily attributable to an increase in our investment in retained interest, partially offset by a decrease in gross revolving loan receivables. Retained interest increased \$173 million from our balance at February 1, 2008, due to a modification to one of our securitization agreements, resulting in a scheduled amortization of the transaction. During the scheduled amortization period, additional purchases made on existing securitized revolving loans are transferred to the qualified special purpose entity, which increased our retained interest balance. See Off-Balance Sheet Arrangements for additional information.

Gross revolving loan receivables decreased \$100 million from our balance at February 1, 2008, due to a reduction in the amount of promotional receivables. From time to time, we offer certain customers with the opportunity to finance their Dell purchases with special programs during which, if the outstanding balance is paid in full, no interest is charged. During Fiscal 2009, we reduced our promotional offerings. Promotional receivables were \$352 million and \$668 million, at January 30, 2009, and February 1, 2008, respectively.

We expect growth in financing receivables throughout Fiscal 2010. To manage this growth, we will continue to balance the use of our own working capital and other sources of liquidity. The key decision factors in the funding decision are the cost of funds, required credit enhancements for receivables sold to the conduits, and the ability to access the capital markets. See Note 6 of

Notes to Consolidated Financial Statements included in “Part II — Item 8 — Financial Statements and Supplementary Data” for additional information about our financing receivables.

We maintain an allowance to cover financing receivable credit losses. Consistent with trends in the financial services industry, during Fiscal 2009 and Fiscal 2008, we experienced year-over-year increased financing receivable credit losses. Net principal charge-offs for Fiscal 2009 and Fiscal 2008 were \$86 million and \$40 million, respectively. These amounts represent 5.5% and 2.7% of the average outstanding customer financing receivable balance (including accrued interest) for the respective years. We have taken underwriting actions to limit our exposure to losses, including reducing our credit approval rate. We continue to assess our portfolio risk and take additional underwriting actions as we deem necessary. Our estimate of subprime customer receivables was approximately 20% of the gross customer receivable balance at January 30, 2009, and February 1, 2008.

The allowance for losses is determined based on various factors, including historical and anticipated experience, past due receivables, receivable type, and customer risk profile. Substantial changes in the economic environment or any of the factors mentioned above could change the expectation of anticipated credit losses. As of January 30, 2009, and February 1, 2008, the allowance for financing receivable losses was \$149 million and \$96 million, respectively. A 10% change in this allowance would not be material to our consolidated results. Based on our assessment of the customer financing receivables and the associated risks, we believe that we are adequately reserved.

See Note 6 of Notes to Consolidated Financial Statements included in “Part II — Item 8 — Financial Statements and Supplementary Data” for additional information.

Current Market Conditions

In connection with the weakened global economic conditions, during Fiscal 2009, we took the following actions to manage our risks:

- Diversified financial Partner exposure.
- Monitored the financial health of our supplier base.
- Tightened requirements for customer credit.
- Monitored the risk concentration of our cash and cash equivalents balance.

- Continued to monitor our balance sheet exposure, primarily trade accounts receivable and financing receivables, to ensure that we do not have significant concentrations of risk with any single customer or industry group. As of January 30, 2009, no single industry group or specific customer represented more than 10% of our trade accounts or financing receivables balance.
- Updated our second quarter analysis of potential triggering events for goodwill and intangible asset impairment in the fourth quarter of Fiscal 2009. Based on this analysis, we concluded that there was no evidence that would indicate an impairment of goodwill or intangible assets.
- Changed our investment strategy to hold securities with shorter durations.
- Continued to monitor the effectiveness of our foreign currency hedging program.

We monitor credit risk associated with our financial counterParties using various market credit risk indicators such as reviews and actions taken by rating agencies and changes in credit default swap levels. We perform periodic evaluations of our positions with these counterParties and may limit the amount of agreements or contracts entered into with any one counterParty in accordance with our policies. We do not anticipate non-performance by any counterParty. We believe that no significant concentration of credit risk for investments exists. The impact on the financial statements of any credit adjustments related to these counterParties has been immaterial.

Market Risk

We are exposed to a variety of risks, including foreign currency exchange rate fluctuations and changes in the market value of our investments. In the normal course of business, we employ established policies and procedures to manage these risks.

Foreign Currency Hedging Activities

Our objective in managing our exposures to foreign currency exchange rate fluctuations is to reduce the impact of adverse fluctuations on earnings and cash flows associated with foreign currency exchange rate changes. Accordingly, we utilize foreign currency option contracts and forward contracts to hedge our exposure on forecasted transactions and firm commitments in more than 20 currencies in which we transact business. Our exposure to foreign currency movements is comprised of certain principal currencies. During Fiscal 2009, these principal currencies were the Euro, British Pound,

Japanese Yen, Canadian Dollar, and Australian Dollar. We monitor our foreign currency exchange exposures to ensure the overall effectiveness of our foreign currency hedge positions. However, there can be no assurance that our foreign currency hedging activities will continue to substantially offset the impact of fluctuations in currency exchange rates on our results of operations and financial position in the future. During Fiscal 2009, the U.S. dollar strengthened relative to the other principal currencies in which we transact business with the exception of the Japanese Yen. However, we manage our business on a U.S. dollar basis, and as a result of our comprehensive hedging program, foreign currency fluctuations did not have a significant impact on our consolidated results of operations.

Based on our foreign currency cash flow hedge instruments outstanding at January 30, 2009, and February 1, 2008, we estimate a maximum potential one-day loss in fair value of approximately \$393 million and \$57 million, respectively, using a Value-at-Risk ("VAR") model. By using market implied rates and incorporating volatility and correlation among the currencies of a portfolio, the VAR model simulates three thousand randomly generated market prices and calculates the difference between the fifth percentile and the average as the Value-at-Risk. In Fiscal 2009, both higher volatility and correlation increased the VAR significantly. Forecasted transactions, firm commitments, fair value hedge instruments, and accounts receivable and payable denominated in foreign currencies were excluded from the model. The VAR model is a risk estimation tool, and as such, is not intended to represent actual losses in fair value that will be incurred. Additionally, as we utilize foreign currency instruments for hedging forecasted and firmly committed transactions, a loss in fair value for those instruments is generally offset by increases in the value of the underlying exposure.

Cash and Investments

At January 30, 2009, we had \$9.5 billion of total cash, cash equivalents, and investments. The objective of our investment policy and strategy is to manage our total cash and investments balances to preserve principal and maintain liquidity while maximizing the return on the investment portfolio through the full investment of available funds. We diversify our investment portfolio by investing in multiple types of investment-grade securities and through the use of third-Party investment managers.

Of the \$9.5 billion, \$8.4 billion is classified as cash and cash equivalents. Our cash equivalents primarily consist of money market funds. Due to the nature of these investments, we consider it reasonable to expect that they will not be significantly impacted by a change in

interest rates, and that these investments can be liquidated for cash at short notice. As of January 30, 2009, our cash equivalents are at carrying value.

The remaining \$1.1 billion is primarily invested in fixed income securities including government, agency, asset-backed, mortgage-backed and corporate debt securities of varying maturities at the date of acquisition. The fair value of our portfolio is affected primarily by interest rates more so than by the credit and liquidity issues currently facing the capital markets. We attempt to mitigate these risks by investing primarily in high credit quality securities with AAA and AA ratings and short-term securities with an A-1 rating, limiting the amount that can be invested in any single issuer, and by investing in short to intermediate term investments whose market value is less sensitive to interest rate changes. As of January 30, 2009, and February 1, 2008, we did not hold any auction rate securities. Our exposure to asset and mortgage backed securities is less than 1% of the value of the portfolio. The total carrying value of investments in asset-backed and mortgage-backed debt securities was approximately \$54 million and \$550 million at January 30, 2009, and February 1, 2008, respectively. Based on our investment portfolio and interest rates at January 30, 2009, a 100 basis point increase or decrease in interest rates would result in a decrease or increase of approximately \$5 million in the fair value of the investment portfolio.

We periodically review our investment portfolio to determine if any investment is other-than-temporarily impaired due to changes in credit risk or other potential valuation concerns. At January 30, 2009, our portfolio included securities with unrealized losses totaling \$10 million, which have been recorded in other comprehensive income (loss), as we believe the investments are not other-than-temporarily impaired.

While these available-for-sale securities have market values below cost, we believe it is probable that the principal and interest will be collected in accordance with the contractual terms, and that the decline in the market value is primarily due to changes in interest rates and not increased credit risk.

During Fiscal 2009, we recorded an \$11 million other-than-temporary impairment loss based on a review of factors consistent with those disclosed in Note 2 of Notes to Consolidated Financial Statements included in “Part II — Item 8 — Financial Statements and Supplementary Data.” Factors considered in determining whether a loss is other-than-temporary include the length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the investee, previously recorded other-than-temporary impairment charges, and our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. The investments other-than-temporarily impaired during Fiscal 2009 were asset-backed securities and were impaired due to severe price degradation or price degradation over an extended period of time, rise in delinquency rates and general credit enhancement declines.

The fair value of our portfolio is based on prices provided from national pricing services, which we currently believe are indicative of fair value as our assessment is that the inputs are market observable. We will continue to evaluate whether the inputs are market observable in accordance with SFAS No. 157, *Fair Value Measurements* (“SFAS 157”). We conduct reviews on a quarterly basis to verify pricing, assess liquidity, and determine if significant inputs have changed that would impact our SFAS 157 disclosures.

Debt

The following table summarizes our long-term debt at January 30, 2009, and February 1, 2008:

	<u>January 30, 2009</u>	<u>February 1, 2008</u>
	(in millions)	
Long-term debt:		
Indenture:		
\$600 million issued on April 17, 2008 at 4.70% due April 2013 with interest payable April 15 and October 15.....	\$ 599	\$ -
\$500 million issued on April 17, 2008 at 5.65% due April 2018 with interest payable April 15 and October 15.....	499	-
\$400 million issued on April 17, 2008 at 6.50% due April 2038 with interest payable April 15 and October 15.....	400	-
Senior Debentures		
\$300 million issued on April 1998 at 7.10% due April 2028 with interest payable April 15 and October 15 (includes the impact of interest rate swaps)	400	359
Senior Notes		
\$200 million issued on April 1998 at 6.55% due April 2008 with interest payable April 15 and October 15 (includes fair value adjustment related to SFAS 133)	-	<u>201</u>
	1,898	560
Other	-	2
Less current portion	-	<u>(200)</u>
Total long-term debt	<u>\$ 1,898</u>	<u>\$ 362</u>

During Fiscal 2009, we issued and sold \$600 million aggregate principal amount of Notes with a fixed rate of 4.70% due 2013 ("2013 Notes"), \$500 million aggregate principal amount of Notes with a fixed interest rate of 5.65% due 2018 ("2018 Notes"), and \$400 million aggregate principal amount of Notes with a fixed rate of 6.50% due 2038 ("2038 Notes"), and together with the 2013 Notes and the 2018 Notes ("Notes"). The Notes are unsecured obligations and rank equally with our existing and future unsecured senior indebtedness. The Notes effectively rank junior to all indebtedness and other liabilities, including trade payables, of our subsidiaries. The net proceeds from the offering of the Notes were approximately \$1.5 billion after payment of expenses of the offering. The estimated fair value of the long-term debt was approximately \$1.5 billion at January 30, 2009, compared to a carrying value of \$1.5 billion at that date.

The Notes were issued pursuant to an Indenture dated as of April 17, 2008 ("Indenture"), between us and a trustee. The Indenture contains customary events of default with respect to the Notes, including failure to make required payments, failure to comply with certain agreements or covenants and certain events of bankruptcy and

insolvency. The Indenture also contains covenants limiting our ability to create certain liens; enter into sale-and-leaseback transactions; and consolidate or merge with, convey, transfer, or lease all or substantially all of our assets to another person. The Senior Debentures generally contain no restrictive covenants, other than a limitation on liens on our assets and a limitation on sale-and-leaseback transactions involving our property. As of January 30, 2009, there were no events of default for the Indenture and the Senior Debentures.

Interest rate swap agreements were entered into concurrently with the issuance of the Senior Debentures to convert the fixed rate to a floating rate for a notional amount of \$300 million and were set to mature April 15, 2028. The floating rates were based on three-month London Interbank Offered Rates plus 0.79%. In January 2009, we terminated our interest rate swap contracts with notional amounts totaling \$300 million. We received \$103 million in cash proceeds from the swap termination, which included \$1 million in accrued interest. These swaps had effectively converted our \$300 million, 7.10% fixed rate Senior Debentures due 2028 to variable rate debt. As a result of the swap terminations, the fair value

of the terminated swaps are reported as Part of the carrying value of the Senior Debentures and are amortized as a reduction of interest expense over the remaining life of the debt. The cash flows from the terminated swap contracts are reported as operating activities in the Consolidated Statement of Cash Flows.

Our effective interest rate for the Senior Debentures was 4.57% for Fiscal 2009. The principal amount of the debt was \$300 million at January 30, 2009. The estimated fair value of the long-term debt was approximately \$294 million at January 30, 2009, compared to a carrying value of \$400 million at that date as a result of the termination of the interest rate swap agreements.

Prior to the termination of the interest rate swap contracts, the interest rate swaps qualified for hedge accounting treatment pursuant to SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended*. We designated the issuance of the Senior Debentures and the related interest rate swap agreements as an integrated transaction. The changes in the fair value of the interest rate swap were reflected in the carrying value of the interest rate swaps on the balance sheet. The carrying value of the debt on the balance sheet was adjusted by an equal and offsetting amount. The differential to be paid or received on the interest rate swap agreements was accrued and recognized as an adjustment to interest expense as interest rates changed.

On April 15, 2008, we repaid the principal balance of the 1998 \$200 million 6.55% fixed rate senior Notes (the "Senior Notes") upon their maturity. Interest rate swap agreements related to the Senior Notes had a notional amount of \$200 million and also matured April 15, 2008. Our effective interest rate for the Senior Notes, prior to repayment, was 4.03% for the first quarter of Fiscal 2009.

As of January 30, 2009, we have a \$1.5 billion commercial paper program with a supporting \$1.5 billion senior unsecured revolving credit facility. This program allows us to obtain favorable short-term borrowing rates. At January 30, 2009, \$100 million was outstanding under the program, and the weighted-average interest rate on those outstanding short-term borrowings was 0.19%. There were no outstanding advances under the commercial paper program at February 1, 2008. We use the proceeds of the program and facility for short-term liquidity purposes and believe we will be able to access the capital markets to meet these needs.

The credit facility requires compliance with conditions that must be satisfied prior to any borrowing, as well as ongoing compliance with specified affirmative and negative covenants, including maintenance of a minimum interest coverage ratio. Amounts outstanding under the facility may be accelerated for typical defaults, including failure to pay principal or interest, breaches of covenants, non-payment of judgments or debt obligations in excess of \$200 million, occurrence of a change of control, and certain bankruptcy events. There were no events of default as of January 30, 2009. On April 3, 2009, \$500 million of the credit facility expires, and the remainder expires June 1, 2011. We intend to have a new \$500 million credit facility in place prior to the expiration of the current facility on April 3, 2009.

Standard and Poor's Rating Services, Moody's Investors Services and Fitch Ratings currently rate our senior unsecured long-term debt A-, A2, and A, and our short-term debt A-1, P-1, and F1, respectively. These rating agencies use proprietary and independent methods of evaluating our credit risk. Factors used when determining our rating include, but are not limited to, publicly available information, industry trends and ongoing discussions between the company and the agencies. We are not aware of any planned changes to our corporate credit ratings by the rating agencies. However, in the event our rating was downgraded, our cost to borrow under the terms of the credit facility would increase. Also, a downgrade in our credit rating could increase our borrowing costs and may limit our ability to issue commercial paper or additional term debt.

Off-Balance Sheet Arrangements

Asset Securitization — During Fiscal 2009, we continued to transfer customer financing receivables to unconsolidated qualifying special purpose entities. The qualifying special purpose entities are bankruptcy remote legal entities with assets and liabilities separate from ours. The purpose of the qualifying special purpose entities is to facilitate the funding of customer receivables in the capital markets. Our unconsolidated qualifying special purpose entities have entered into financing arrangements with three multi-seller conduits that, in turn, issue asset-backed debt securities in the capital markets. Two of the three conduits fund fixed-term leases and loans, and one conduit funds revolving loans. During Fiscal 2009 and Fiscal 2008, we transferred \$1.4 billion and \$1.2 billion, respectively, of customer receivables to

unconsolidated qualifying special purpose entities. The principal balance of the securitized receivables at January 30, 2009, and February 1, 2008, was \$1.4 billion and \$1.2 billion, respectively.

Certain transfers are accounted for as a sale in accordance with SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*, ("SFAS 140"). Upon the sale of the customer receivables to qualifying special purpose entities, we recognize a gain on the sale and retain an interest in the assets sold. We provide credit enhancement to the securitization in the form of over-collateralization. Receivables transferred to the qualified special purpose entities exceed the level of debt issued. We retain the right to receive collections for assets securitized exceeding the amount required to pay interest, principal, and other fees and expenses (referred to as retained interest). Retained interest is included in Financing Receivables on the balance sheet. At January 30, 2009, and February 1, 2008, our retained interest in securitized receivables was \$396 million and \$223 million, respectively. Our risk of loss related to securitized receivables is limited to the amount of our retained interest.

Our retained interest in the securitizations is determined by calculating the present value of excess cash flows over the expected duration of the transactions. In estimating the value of the retained interest, we make a variety of financial assumptions, including pool credit losses, payment rates, and discount rates. These assumptions are supported by both our historical experience and anticipated trends relative to the Particular receivable pool. The weighted average assumptions for valuing retained interest can be affected by the many factors, including the type of assets (revolving versus fixed), repayment terms, and the credit quality of assets being securitized. We review our investments in retained interest periodically for impairment, based on estimated fair values. All gains and losses are recognized in income immediately. Retained interest balances and assumptions are disclosed in Note 6 of Notes to Consolidated Financial Statements included in "Part II — Item 8 — Financial Statements and Supplementary Data."

We service securitized contracts and earn a servicing fee. Our securitization transactions generally do not result in servicing assets and liabilities, as the contractual fees are adequate compensation in relation to the associated servicing cost.

During Fiscal 2009, the disruption in the debt and capital markets resulted in reduced liquidity and increased costs for funding of financial assets. Due to the proposed increase to the cost structure in our revolving credit conduit, we elected not to extend the terms of the agreement. This resulted in a scheduled amortization of the transaction. During this scheduled amortization period, no new debt will be issued and all principal collections will be used to pay down the outstanding debt amount related to the securitized assets. Our right to receive cash collections is delayed until the debt is fully paid off.

During the scheduled amortization period, no transfers of new revolving loans will occur. Additional purchases made on existing securitized revolving loans (repeat purchases) will continue to be transferred to the qualified special purpose entity, which will increase our retained interest on the balance sheet.

We will be required to consolidate the assets and liabilities relating to the revolving securitization transaction on our balance sheet once the amount of beneficial interest in the revolving credit conduit owned by third Parties falls below 10%. We expect the securitization transaction related to revolving receivables to terminate completely in Fiscal 2010. The impact to our balance sheet is anticipated to be immaterial. Our fixed-term lease and loan securitization programs will be up for renewal in Fiscal 2010. We expect to renew these facilities. As we negotiate these annual renewals, management will continue to assess the costs and benefits of using securitization to fund our receivables. We expect to be able to continue to offer or arrange financing for our customers, despite our reduced reliance on securitization as a means of funding receivables.

All of our securitization programs contain standard structural features related to the performance of the securitized receivables. These structural features include defined credit losses, delinquencies, average credit scores, and excess collections above or below specified levels. In the event one or more of these features are met and we are unable to restructure the program, no further funding of receivables will be permitted, and the timing of expected retained interest cash flows will be delayed, which would impact the valuation of our retained interest. Should these events occur, we do not expect a material adverse affect on the valuation of the retained interest.

Liquidity, Capital Commitments, and Contractual Cash Obligations

Liquidity

Our cash balances are held in numerous locations throughout the world, including substantial amounts held outside of the U.S.; however, the majority of our cash and investments that are located outside of the U.S. are denominated in the U.S. dollar. Most of the amounts held outside of the U.S. could be repatriated to the U.S., but under current law, would be subject to U.S. federal income taxes, less applicable foreign tax credits. In some countries, repatriation of certain foreign balances is restricted by local laws. We have provided for the U.S. federal tax liability on these amounts for financial statement purposes, except for foreign earnings that are considered indefinitely reinvested outside of the U.S. Repatriation could result in additional U.S. federal income tax payments. We utilize a variety of tax planning and financing strategies with the objective of having our worldwide cash available in the locations in which it is needed.

We have an active working capital management team that monitors the efficiency of our balance sheet by evaluating liquidity under various macroeconomic and competitive scenarios. These scenarios quantify risks to the financial statements and provide a basis for actions necessary to ensure adequate liquidity. We took a number of actions during Fiscal 2009 to improve short- and long-term liquidity. We have reprioritized capital expenditures and other discretionary spending. The

movement of some of our manufacturing operations to third Party manufacturers and the associated closure of several of our manufacturing facilities has reduced the amount of capital required for our business. Also, during the second half of Fiscal 2009, we slowed our share repurchases. We remained active in the commercial paper market by issuing short-term borrowings with maturities extending into Fiscal 2010. We also increased the size of our commercial paper program and supporting senior unsecured revolving credit facility by \$500 million to \$1.5 billion in April 2008. On April 3, 2009, \$500 million of the credit facility will expire, and the remainder will expire June 1, 2011. We intend to have a new \$500 million credit facility in place prior to the expiration of the current facility on April 3, 2009. In November 2008, we filed a shelf registration statement with the SEC, which provides us with the ability to issue additional term debt, subject to market conditions. We intend to establish the appropriate debt levels based upon cash flow expectations, the overall cost of capital, cash requirements for operations, and discretionary spending — including items such as share repurchases, funding customer receivables, and acquisitions. Depending on our requirements and market conditions, we may access the capital markets under our debt shelf registration statement that became effective in November 2008. We do not believe that the overall credit concerns in the markets would impede our ability to access the capital markets in the future because of the overall strength of our financial position.

The following table summarizes our ending cash, cash equivalents, and investments balances:

	<u>Fiscal Year Ended</u>	
	<u>January 30, 2009</u>	<u>February 1, 2008</u>
	<u>(in millions)</u>	
<i>Cash, cash equivalents, and investments:</i>		
Cash and cash equivalents	\$ 8,352	\$ 7,764
Debt securities.....	1,079	1,657
Equity and other securities.....	<u>115</u>	<u>111</u>
Cash, cash equivalents, and investments.....	<u>\$ 9,546</u>	<u>\$ 9,532</u>

We ended Fiscal 2009 and Fiscal 2008 with \$9.5 billion in cash, cash equivalents, and investments. Since February 1, 2008, we have spent \$2.9 billion on share repurchases offset primarily by our \$1.5 billion debt issuance and \$1.9 billion in cash flow from operations. We use cash generated by operations as our primary source of liquidity and believe that internally generated cash flows are

sufficient to support business operations. Over the past year, we have utilized external capital sources to supplement our domestic liquidity to fund a number of strategic initiatives. We ended the fourth quarter of Fiscal 2009 with a negative cash conversion cycle of 25 days, which is a contraction of 11 days from the fourth quarter of Fiscal 2008. The contraction is due to a decrease in our

accounts payable balance, which is primarily driven by a reduction in purchases related to declining unit volumes. A negative cash conversion cycle combined with a slowdown in revenue growth could result in cash use in excess of cash generated. Generally, as our growth stabilizes, our cash generation from operating activities

will improve. For further discussion of the results of our cash conversion cycle, see “Operating Activities” below.

The following table contains a summary of our Consolidated Statements of Cash Flows for the past three fiscal years:

	Fiscal Year Ended		
	January 30, 2009	February 1, 2008	February 2, 2007
	(in millions)		
<i>Net change in cash from:</i>			
Operating activities	\$ 1,894	\$ 3,949	\$ 3,969
Investing activities	177	(1,763)	1,003
Financing activities	(1,406)	(4,120)	(2,551)
Effect of exchange rate changes on cash and cash equivalents	(77)	152	71
Net increase (decrease) in cash and cash equivalents	<u>\$ 588</u>	<u>\$ (1,782)</u>	<u>\$ 2,492</u>

Operating Activities — Cash flows from operating activities during Fiscal 2009, 2008, and 2007 resulted primarily from net income, which represents our principal source of cash. Cash flows from operating activities were \$1.9 billion during Fiscal 2009, compared to \$3.9 billion during Fiscal 2008 and \$4.0 billion during Fiscal 2007. For Fiscal 2009, the decrease in operating cash flows was primarily led by the deterioration of our cash conversion cycle, slower growth in deferred service revenue, and a decrease in net income. In Fiscal 2008, the slight decrease in operating cash flows was primarily due to changes in working capital slightly offset by an increase in net income. See discussion of our cash conversion cycle in “Key Performance Metrics” below.

Key Performance Metrics — Although our cash conversion cycle deteriorated from February 1, 2008, and February 2, 2007, our direct business model allows us to maintain an efficient cash conversion cycle, which compares favorably with that of others in our industry. As our growth stabilizes, more typical cash generation and a resulting cash conversion cycle are expected to resume.

The following table presents the components of our cash conversion cycle for the fourth quarter of each of the past three fiscal years:

	January 30, 2009	February 1, 2008	February 2, 2007
Days of sales outstanding ^(a)	35	36	31
Days of supply in inventory ^(b)	7	8	5
Days in accounts payable ^(c)	(67)	(80)	(78)
Cash conversion cycle	<u>(25)</u>	<u>(36)</u>	<u>(42)</u>

(a) Days of sales outstanding (“DSO”) calculates the average collection period of our receivables. DSO is based on the ending net trade receivables and the most recent quarterly revenue for each period. DSO also includes the effect of product costs related to customer shipments not yet recognized as revenue that are classified in other current assets. DSO is calculated by adding accounts receivable, net of allowance for doubtful accounts, and customer shipments in transit and dividing that sum by average net revenue per day for the current quarter (90 days). At January 30, 2009, February 1, 2008, and February 2, 2007, DSO and days of customer shipments not yet recognized were 31 and 4 days, 33 and 3 days, and 28 and 3 days, respectively.

(b) Days of supply in inventory (“DSI”) measures the average number of days from procurement to sale of our product. DSI is based on ending inventory and most recent quarterly cost of sales for each period. DSI is calculated by dividing inventory by average cost of goods sold per day for the current quarter (90 days).

(c) Days in accounts payable (“DPO”) calculates the average number of days our payables remain outstanding before payment. DPO is based on ending accounts payable and most recent quarterly cost of sales for each period. DPO is calculated by dividing accounts payable by average cost of goods sold per day for the current quarter (90 days).

Our cash conversion cycle contracted by eleven days at January 30, 2009, from February 1, 2008, driven by a thirteen day decrease in DPO offset by a one day decrease in DSO and a one day decrease in DSI. The decrease in DPO from February 1, 2008, is attributable to procurement throughput declines as a result of declining demand, reduction in inventory levels, and a decrease in non-production supplier payables as we continue to control our operating expense spending and the timing of purchases from and payments to suppliers during the fourth quarter of Fiscal 2009 as compared to the fourth quarter of Fiscal 2008. The decrease in DSO from February 1, 2008, is attributable to the timing of revenue due to seasonal impact, partially offset by a shift to customers with longer payment terms.

Our cash conversion cycle contracted by six days at February 1, 2008 compared to February 2, 2007. This deterioration was driven by a five day increase in DSO largely attributed to timing of payments from customers, a continued shift in sales mix from domestic to international, and an increased presence in the retail channel. In addition, DSI increased by three days, which was primarily due to strategic materials purchases. The DSO and DSI declines were offset by a two-day increase in DPO largely attributed to an increase in the amount of strategic material purchases in inventory at the end of Fiscal 2008 and the number of suppliers with extended payment terms as compared to Fiscal 2007.

We defer the cost of revenue associated with customer shipments not yet recognized as revenue until they are delivered. These deferred costs are included in our reported DSO because we believe it presents a more accurate presentation of our DSO and cash conversion cycle. These deferred costs are recorded in other current assets in our Consolidated Statements of Financial Position and totaled \$556 million, \$519 million, and \$424 million at January 30, 2009, February 1, 2008, and February 2, 2007, respectively.

Investing Activities — Cash provided by investing activities during Fiscal 2009 was \$177 million, as compared to \$1.8 billion cash used by investing activities during Fiscal 2008 and \$1.0 billion provided in Fiscal 2007. Cash generated or used in investing activities principally consists of the net of sales and maturities and purchases of investments; net capital expenditures for property, plant, and equipment; and cash used to fund strategic acquisitions, which was approximately \$176 million during Fiscal 2009 compared to \$2.2 billion during Fiscal 2008. In light of continued capital market and interest rate volatility, we decided to increase liquidity and change the overall interest rate profile of the portfolio. As a result, during Fiscal 2009 we began repositioning our investment portfolio to shorter

duration securities, thus impacting the volume of our sales and purchases of securities. In Fiscal 2009 as compared to Fiscal 2008, lower cash flow from operating activities and lower yields on investments resulted in lower net proceeds from maturities, sales, and purchases. In Fiscal 2008 as compared to Fiscal 2007, we re-invested a lower amount of our proceeds from the maturity or sales of investments to build liquidity for share repurchases and for cash payments made in connection with acquisitions.

Financing Activities — Cash used in financing activities during Fiscal 2009 was \$1.4 billion, as compared to \$4.1 billion in Fiscal 2008 and \$2.6 billion in Fiscal 2007. Financing activities primarily consist of the repurchase of our common stock, partially offset by proceeds from the issuance of common stock under employee stock plans and other items. The year-over-year decrease in cash used for financing activities is due primarily to the reduction of our share repurchase program during Fiscal 2009 and by proceeds from the issuance of long-term debt of \$1.5 billion. During Fiscal 2009, we repurchased approximately 134 million shares at an aggregate cost of \$2.9 billion compared to approximately 179 million shares at an aggregate cost of \$4.0 billion in Fiscal 2008. We also paid the principal on the Senior Notes of \$200 million that matured in April 2008 as discussed in Note 2 of Notes to Consolidated Financial Statements under “Part II — Item 8 — Financial Statements and Supplementary Data.”

In Fiscal 2008, the year-over-year increase in cash used in financing activities was due primarily to the repurchase of our common stock as the temporary suspension of our share repurchase program ended in the fourth quarter of Fiscal 2008. In Fiscal 2008, we repurchased approximately 179 million shares at an aggregate cost of \$4.0 billion, and during Fiscal 2007, we repurchased approximately 118 million shares at an aggregate cost of \$3.0 billion.

We also have a commercial paper program that allows us to issue short-term unsecured Notes in an aggregate amount not to exceed \$1.5 billion. We use the proceeds for general corporate purposes. At January 30, 2009, there was \$100 million outstanding under the commercial paper program and no advances under the supporting credit facility. See Note 2 of Notes to Consolidated Financial Statements under “Part II — Item 8 — Financial Statements and Supplementary Data” for further discussion on our long-term debt and commercial paper program.

Capital Commitments

Share Repurchase Program — We have a share repurchase program that authorizes us to purchase shares of common stock in order to increase shareholder value and manage dilution resulting from shares issued under our equity compensation plans. However, we do not currently have a policy that requires the repurchase of common stock to offset share-based compensation arrangements.

We typically repurchase shares of common stock through a systematic program of open market purchases. During Fiscal 2009, we repurchased approximately 134 million shares of common stock for an aggregate cost of \$2.9 billion. During Fiscal 2008 we repurchased approximately 179 million shares at an aggregate cost of \$4.0 billion compared to 118 million shares at an aggregate cost of \$3.0 billion in Fiscal 2007. For more information regarding share repurchases, see “Part II — Item 5 — Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.”

Capital Expenditures — During Fiscal 2009 and Fiscal 2008, we spent \$440 million and \$831 million, respectively, on property, plant, and equipment primarily on our global expansion efforts and

infrastructure investments in order to support future growth. The significant decrease in capital expenditures from Fiscal 2008 is primarily due to the completion of facilities related projects during Fiscal 2008 and other cost reduction actions. Product demand, product mix, and the increased use of contract manufacturers, as well as ongoing investments in operating and information technology infrastructure, influence the level and prioritization of our capital expenditures. Capital expenditures for Fiscal 2010, related to our continued expansion worldwide, are currently expected to reach approximately \$400 million. These expenditures are expected to be funded from our cash flows from operating activities.

Restricted Cash — Pursuant to an agreement between DFS and CIT, we are required to maintain escrow cash accounts that are held as recourse reserves for credit losses, performance fee deposits related to our private label credit card, and deferred servicing revenue. Restricted cash in the amount of \$213 million and \$294 million is included in other current assets at January 30, 2009, and February 1, 2008, respectively.

Contractual Cash Obligations

The following table summarizes our contractual cash obligations at January 30, 2009:

	<u>Total</u>	<u>Payments Due by Period</u>			
		<u>Fiscal 2010</u>	<u>Fiscal 2011-2012</u>	<u>Fiscal 2013-2014</u>	<u>Beyond</u>
			(in millions)		
Contractual cash obligations:					
Debt	\$ 1,797	\$ 2	\$ -	\$ 600	\$ 1,195
Operating leases	458	89	140	76	153
Commercial paper	100	100	-	-	-
Advances under credit facilities	12	12	-	-	-
Purchase obligations	787	590	196	1	-
Interest	1,578	104	208	193	1,073
Current portion of uncertain tax positions ^(a)	6	6	-	-	-
Contractual cash obligations	<u>\$ 4,738</u>	<u>\$ 903</u>	<u>\$ 544</u>	<u>\$ 870</u>	<u>\$ 2,421</u>

(a) The current portion of uncertain tax positions does not include approximately \$1.7 billion in additional liabilities associated with uncertain tax positions that are not expected to be liquidated in Fiscal 2010. We are unable to reliably estimate the expected payment dates for these additional non-current liabilities.

Debt — At January 30, 2009, we had outstanding \$300 million in Senior Debentures with the principal balance due April 15, 2028. We also had outstanding \$1.5 billion of long-term unsecured Notes that were issued on April 17, 2008, in three tranches: \$600 million aggregate principal amount due 2013, \$500 million aggregate principal amount due 2018, and \$400 million aggregate principal amount due 2038. Interest is payable semi-annually on April 15 and October 15 for the Senior Debentures and Notes. For additional information regarding these debt issuances, see Note 2 of Notes to Consolidated Financial Statements included in “Part II — Item 8 — Financial Statements and Supplementary Data.”

Operating Leases — We lease property and equipment, manufacturing facilities, and office space under non-cancellable leases. Certain of these leases obligate us to pay taxes, maintenance, and repair costs.

Commercial Paper — We have a commercial paper program that allows us to issue short-term unsecured Notes in an aggregate amount not to exceed \$1.5 billion. We use the proceeds for general corporate purposes. At January 30, 2009, there was \$100 million outstanding under the commercial paper program and no advances under the supporting credit facility. See Note 2 of Notes to Consolidated Financial Statements under “Part II — Item 8 — Financial Statements and Supplementary Data” for further discussion of our commercial paper program.

Advances Under Credit Facilities — Dell India Pvt Ltd., our wholly-owned subsidiary, maintains unsecured short-term credit facilities with Citibank N.A. Bangalore Branch India (“Citibank India”) that provide a maximum capacity of \$30 million to fund Dell India’s working capital and import buyers’ credit needs. Financing is available in both Indian Rupees and foreign currencies. The borrowings are extended on an unsecured basis based on our guarantee to Citibank N.A. Citibank India can cancel the facilities in whole or in Part without prior notice, at which time any amounts owed under the facilities will become immediately due and payable. Interest on the outstanding loans is charged monthly and is calculated based on Citibank India’s internal cost of funds plus 0.25%. At January 30, 2009, and February 1, 2008, outstanding advances from Citibank India totaled \$12 million and \$23 million, respectively, which are included in short-term borrowings on our Consolidated Statement of Financial Position. There have been no events of default.

Purchase Obligations — Purchase obligations are defined as contractual obligations to purchase goods or services that are enforceable and legally binding on us. These

obligations specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. Purchase obligations do not include contracts that may be cancelled without penalty.

We utilize several suppliers to manufacture sub-assemblies for our products. Our efficient supply chain management allows us to enter into flexible and mutually beneficial purchase arrangements with our suppliers in order to minimize inventory risk. Consistent with industry practice, we acquire raw materials or other goods and services, including product components, by issuing to suppliers authorizations to purchase based on our projected demand and manufacturing needs. These purchase orders are typically fulfilled within 30 days and are entered into during the ordinary course of business in order to establish best pricing and continuity of supply for our production. Purchase orders are not included in the table above as they typically represent our authorization to purchase rather than binding purchase obligations.

Purchase obligations decreased to approximately \$787 million at January 30, 2009, from \$893 million at February 1, 2008. The decrease is primarily due to the fulfillment of commitments to purchase key components and services partially offset by the renewal of or entering into new purchase contracts.

Interest — See Note 2 of Notes to the Consolidated Financial Statements included in “Part II — Item 8 — Financial Statements and Supplementary Data” for further discussion of our debt and related interest expense.

Risk Factors Affecting Our Business and Prospects

There are numerous risk factors that affect our business and the results of our operations. Some of these risks are beyond our control. These risk factors include:

- weakening global economic conditions and instability in financial markets;
- strong competition;
- our ability to generate substantial non-U.S. net revenue;
- our ability to accurately predict product, customer, and geographic sales mix and seasonal sales trends;
- information technology and manufacturing infrastructure failures;
- our ability to effectively manage periodic product transitions;
- our ability to successfully transform our sales capabilities and add to our product and service offerings;
- disruptions in component or product availability;
- our reliance on vendors;
- our reliance on third-Party suppliers for quality product components, including reliance on several single-sourced or limited-sourced suppliers;

- our ability to access the capital markets;
- risks relating to our internal controls;
- unfavorable results of legal proceedings;
- our acquisition of other companies;
- our ability to properly manage the distribution of our products and services;
- our cost cutting measures;
- effective hedging of our exposure to fluctuations in foreign currency exchange rates and interest rates;
- risks related to counterparty default;
- obtaining licenses to intellectual property developed by others on commercially reasonable and competitive terms;
- our ability to attract, retain, and motivate key personnel;
- loss of government contracts;
- expiration of tax holidays or favorable tax rate structures or unfavorable outcomes in tax compliance and regulatory matters;
- changing environmental laws; and
- the effect of armed hostilities, terrorism, natural disasters, and public health issues.

For a discussion of these risk factors affecting our business and prospects, see “Part I — Item 1A — Risk Factors.”

Critical Accounting Policies

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The preparation of financial statements in accordance with GAAP requires certain estimates, assumptions, and judgments to be made that may affect our Consolidated Statement of Financial Position and Consolidated Statement of Income. We believe our most critical accounting policies relate to revenue recognition, business combinations, warranty accruals, income taxes, stock-based compensation, and loss contingencies. We have discussed the development, selection, and disclosure of our critical accounting policies with the Audit Committee of our Board of Directors. These critical accounting policies and our other accounting policies are also described in Note 1 of Notes to Consolidated Financial Statements included in “Part II — Item 8 — Financial Statements and Supplementary Data.”

Revenue Recognition and Related Allowances — We frequently enter into sales arrangements with customers that contain multiple elements or deliverables such as hardware, software, peripherals, and services. Judgments and estimates are necessary to ensure compliance with GAAP. These judgments relate to the allocation of the proceeds received from an arrangement to the multiple elements, the determination of whether any undelivered elements are essential to the functionality of the delivered elements, and the appropriate timing of

revenue recognition. We offer extended warranty and service contracts to customers that extend and/or enhance the technical support, parts, and labor coverage offered as Part of the base warranty included with the product. Revenue from extended warranty and service contracts, for which we are obligated to perform, is recorded as deferred revenue and subsequently recognized over the term of the contract or when the service is completed. Revenue from sales of third-Party extended warranty and service contracts, for which we are not obligated to perform, is recognized on a net basis at the time of sale, as we do not meet the criteria for gross recognition under Emerging Issues Task Force 99-19, “*Reporting Revenue Gross as a Principal versus Net as an Agent.*”

We record reductions to revenue for estimated customer sales returns, rebates, and certain other customer incentive programs. These reductions to revenue are made based upon reasonable and reliable estimates that are determined by historical experience, contractual terms, and current conditions. The primary factors affecting our accrual for estimated customer returns include estimated return rates as well as the number of units shipped that have a right of return that has not expired as of the balance sheet date. If returns cannot be reliably estimated, revenue is not recognized until a reliable estimate can be made or the return right lapses. Each quarter, we reevaluate our estimates to assess the adequacy of our recorded accruals for customer returns and allowance for doubtful accounts, and adjust the amounts as necessary.

During Fiscal 2008, we began selling our products through retailers. Sales to our retail customers are generally made under agreements allowing for limited rights of return, price protection, rebates, and marketing development funds. We have generally limited the return rights through contractual caps. Our policy for sales to retailers is to defer the full amount of revenue relative to sales for which the rights of return apply as we do not currently have sufficient historical data to establish reasonable and reliable estimates of returns, although we are in the process of accumulating the data necessary to develop reliable estimates in the future. All other sales for which the rights of return do not apply are recognized upon shipment when all applicable revenue recognition criteria have been met. To the extent price protection and return rights are not limited, all of the revenue and related cost are deferred until the product has been sold by the retailer, the rights expire, or a reliable estimate of such amounts can be made. Generally, we record estimated reductions to revenue or an expense for retail customer

programs at the later of the offer or the time revenue is recognized in accordance with EITF 01-09. Our customer programs primarily involve rebates, which are designed to serve as sales incentives to resellers of our products and marketing funds.

We report revenue net of any revenue-based taxes assessed by governmental authorities that are imposed on and concurrent with specific revenue-producing transactions.

Business Combinations and Intangible Assets Including Goodwill — We account for business combinations using the purchase method of accounting and accordingly, the assets and liabilities of the acquired entities are recorded at their estimated fair values at the acquisition date. Goodwill represents the excess of the purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets. Given the time it takes to obtain pertinent information to finalize the acquired company's balance sheet, it may be several quarters before we are able to finalize those initial fair value estimates. Accordingly, it is not uncommon for the initial estimates to be subsequently revised. The results of operations of acquired businesses are included in the Consolidated Financial Statements from the acquisition date.

Identifiable intangible assets with finite lives are amortized over their estimated useful lives. They are generally amortized on a non-straight-line approach based on the associated projected cash flows in order to match the amortization pattern to the pattern in which the economic benefits of the assets are expected to be consumed. They are reviewed for impairment if indicators of potential impairment exist. Goodwill and indefinite lived intangibles assets are tested for impairment on an annual basis in the second fiscal quarter, or sooner if an indicator of impairment occurs. Given the rapid changes in the market place during the second half of Fiscal 2009, we updated our impairment analysis in the fourth quarter and concluded that there were no impairment triggering events.

Warranty — We record warranty liabilities at the time of sale for the estimated costs that may be incurred under the terms of the limited warranty. The specific warranty terms and conditions vary depending upon the product sold and country in which we do business, but generally include technical support, parts, and labor over a period ranging from one to three years. Factors that affect our warranty liability include the number of installed units currently under warranty, historical and anticipated rates

of warranty claims on those units, and cost per claim to satisfy our warranty obligation. The anticipated rate of warranty claims is the primary factor impacting our estimated warranty obligation. The other factors are less significant due to the fact that the average remaining aggregate warranty period of the covered installed base is approximately 20 months, repair parts are generally already in stock or available at pre-determined prices, and labor rates are generally arranged at pre-established amounts with service providers. Warranty claims are reasonably predictable based on historical experience of failure rates. If actual results differ from our estimates, we revise our estimated warranty liability to reflect such changes. Each quarter, we reevaluate our estimates to assess the adequacy of the recorded warranty liabilities and adjust the amounts as necessary.

Income Taxes — We calculate a provision for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized by identifying the temporary differences arising from the different treatment of Items for tax and accounting purposes. In determining the future tax consequences of events that have been recognized in our financial statements or tax returns, judgment is required. Differences between the anticipated and actual outcomes of these future tax consequences could have a material impact on our consolidated results of operations or financial position. Additionally, we use tax planning strategies as a Part of our global tax compliance program. Judgments and interpretation of statutes are inherent in this process. We provide related valuation reserves, where appropriate, in accordance with FIN48.

Stock-Based Compensation — Effective February 4, 2006, stock-based compensation expense is recorded based on the grant date fair value estimate in accordance with the provisions of SFAS 123(R). In March 2005, the SEC issued Staff Accounting Bulletin No.107 ("SAB107") regarding the SEC's interpretation of SFAS 123(R) and the valuation of share-based payments for public companies. We have applied the provisions of SAB107 in our adoption of SFAS 123(R). Note 5 of Notes to Consolidated Financial Statements included in "Part II — Item 8 — Financial Statements and Supplementary Data" for further discussion of stock-based compensation.

SFAS 123(R) requires the use of a valuation model to calculate the fair value of stock option awards. We have elected to use the Black-Scholes option pricing model, which incorporates various assumptions, including volatility, expected term, and risk-free interest rates. The volatility is based on a blend of implied and historical

volatility of our common stock over the most recent period commensurate with the estimated expected term of our stock options. We use this blend of implied and historical volatility, as well as other economic data, because we believe such volatility is more representative of prospective trends. The expected term of an award is based on historical experience and on the terms and conditions of the stock awards granted to employees. The dividend yield of zero is based on the fact that we have never paid cash dividends and have no present intention to pay cash dividends.

The cost of restricted stock awards is determined using the fair market value of our common stock on the date of grant.

Loss Contingencies — We are subject to the possibility of various losses arising in the ordinary course of business. We consider the likelihood of loss or impairment of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss, in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted and whether new accruals are required. Third Parties have in the past and may in the future assert claims or initiate litigation related to exclusive patent, copyright, and other intellectual property rights to technologies and related standards that are relevant to us. If any infringement or other intellectual property claim made against us by any third Party is successful, or if we fail to develop non-infringing technology or license the proprietary rights on commercially reasonable terms and conditions, our business, operating results, and financial condition could be materially and adversely affected.

Recently Issued and Adopted Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standard (“SFAS ”) No.157, *Fair Value Measurements* (“SFAS 157”), which defines fair value, provides a framework for measuring fair value, and expands the disclosures required for assets and liabilities measured at fair value. SFAS 157 applies to existing accounting pronouncements that require fair value measurements; it does not require any new fair value measurements. We adopted the effective portions of SFAS 157 beginning the first quarter of Fiscal 2009, with no material impact to our financial results. In February

2008, FASB issued FASB Staff Position (“FSP”) 157-2, *Effective Date of FASB Statement No.157* (“FSP157-2”), which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except for Items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of the first quarter of Fiscal 2010. We are currently evaluating the inputs and techniques used in these measurements, including Items such as impairment assessments of fixed assets and goodwill impairment testing. See Note 2 of Notes to Consolidated Financial Statements included in “Part II — Item 8 — Financial Statements and Supplementary Data” for the impact of the adoption.

On October 10, 2008, the FASB issued FSP No. FAS 157-3 *“Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active”* (“FSP FAS 157-3”), which clarifies the application of SFAS 157 in a market that is not active. Additional guidance is provided regarding how the reporting entity’s own assumptions should be considered when relevant observable inputs do not exist, how available observable inputs in a market that is not active should be considered when measuring fair value, and how the use of market quotes should be considered when assessing the relevance of inputs available to measure fair value. FSP FAS 157-3 became effective immediately upon issuance. Dell considered the additional guidance with respect to the valuation of its financial assets and liabilities and their corresponding designation within the fair value hierarchy. Its adoption did not have a material effect on Dell’s consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS 159”), which provides companies with an option to report selected financial assets and liabilities at fair value with the changes in fair value recognized in earnings at each subsequent reporting date. SFAS 159 provides an opportunity to mitigate potential volatility in earnings caused by measuring related assets and liabilities differently, and it may reduce the need for applying complex hedge accounting provisions. While SFAS 159 became effective for our 2009 fiscal year, we did not elect the fair value measurement option for any of our financial assets or liabilities.

Recently Issued Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (“SFAS 141(R)”). SFAS 141(R) requires that the acquisition method of accounting be

applied to a broader set of business combinations and establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, any noncontrolling interest in the acquiree, and the goodwill acquired. SFAS 141(R) also establishes the disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008 and is required to be adopted by us beginning in the first quarter of Fiscal 2010. Management believes the adoption of SFAS 141(R) will not have an impact on our results of operations, financial position, and cash flows for acquisitions completed prior to Fiscal 2010. The impact of SFAS 141 (R) on our future consolidated results of operations and financial condition will be dependent on the size and nature of future combinations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51* (“SFAS 160”). SFAS 160 requires that the noncontrolling interest in the equity of a subsidiary be accounted for and reported as equity, provides revised guidance on the treatment of net income and losses attributable to the noncontrolling interest and changes in ownership interests in a

subsidiary, and requires additional disclosures that identify and distinguish between the interests of the controlling and noncontrolling owners. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2008 and is required to be adopted by us beginning in the first quarter of Fiscal 2010. We do not expect SFAS 160 to have a material impact on our results of operations, financial position, and cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (“SFAS 161”), which requires additional disclosures about the objectives of derivative instruments and hedging activities, the method of accounting for such instruments under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (“SFAS 133”), and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on a company’s financial position, financial performance, and cash flows. SFAS 161 does not change the accounting treatment for derivative instruments and is effective for us beginning Fiscal 2010.

ITEM 7A — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Response to this Item is included in “Part II — Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Market Risk” and is incorporated herein by reference.