

★ Discussion Questions

1. What has happened to Dell's liquidity position over the past 3 years? How does Dell's liquidity compare with that of its peers? (Hint: You may use both the peer key financial ratios and liquidity comparison to answer this question.)
 2. Take a look at Dell's inventory turnover ratio. How does this ratio compare with that of its peers? Have there been any interesting changes over time in this measure? Do you consider Dell's inventory management to be a strength or a weakness? Explain.
 3. Construct a DuPont analysis for Dell and its peers. What are Dell's strengths and weaknesses compared to those of its competitors?
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DELL INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in millions)

	February 3, 2012	January 28, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13,852	\$ 13,913
Short-term investments	966	452
Accounts receivable, net	6,476	6,493
Short-term financing receivables, net	3,327	3,643
Inventories, net	1,404	1,301
Other current assets	3,423	3,219
Total current assets	29,448	29,021
Property, plant, and equipment, net	2,124	1,953
Long-term investments	3,404	704
Long-term financing receivables, net	1,372	799
Goodwill	5,838	4,365
Purchased intangible assets, net	1,857	1,495
Other non-current assets	490	262
Total assets	\$ 44,533	\$ 38,599
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	\$ 2,867	\$ 851
Accounts payable	11,656	11,293
Accrued and other	3,934	4,181
Short-term deferred services revenue	3,544	3,158
Total current liabilities	22,001	19,483
Long-term debt	6,387	5,146
Long-term deferred services revenue	3,836	3,518
Other non-current liabilities	3,392	2,686
Total liabilities	35,616	30,833
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock and capital in excess of \$.01 par value; shares authorized: 7,000; shares issued: 3,390 and 3,369, respectively; shares outstanding: 1,761 and 1,918, respectively	12,187	11,797
Treasury stock at cost: 1,154 and 976 shares, respectively	(31,445)	(28,704)
Retained earnings	28,236	24,744
Accumulated other comprehensive loss	(61)	(71)
Total stockholders' equity	8,917	7,766
Total liabilities and stockholders' equity	\$ 44,533	\$ 38,599

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

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DELL INC.
CONSOLIDATED STATEMENTS OF INCOME
(in millions, except per share amounts)

	Fiscal Year Ended		
	February 3, 2012	January 28, 2011	January 29, 2010
<i>Net revenue:</i>			
Products	\$ 49,906	\$ 50,002	\$ 43,697
Services, including software related	12,165	11,492	9,205
Total net revenue	<u>62,071</u>	<u>61,494</u>	<u>52,902</u>
<i>Cost of net revenue:</i>			
Products	39,689	42,068	37,534
Services, including software related	8,571	8,030	6,107
Total cost of net revenue	<u>48,260</u>	<u>50,098</u>	<u>43,641</u>
Gross margin	<u>13,811</u>	<u>11,396</u>	<u>9,261</u>
<i>Operating expenses:</i>			
Selling, general, and administrative	8,524	7,302	6,465
Research, development, and engineering	856	661	624
Total operating expenses	<u>9,380</u>	<u>7,963</u>	<u>7,089</u>
Operating income	4,431	3,433	2,172
Interest and other, net	<u>(191)</u>	<u>(83)</u>	<u>(148)</u>
Income before income taxes	4,240	3,350	2,024
Income tax provision	748	715	591
Net income	<u>\$ 3,492</u>	<u>\$ 2,635</u>	<u>\$ 1,433</u>
Earnings per share:			
Basic	<u>\$ 1.90</u>	<u>\$ 1.36</u>	<u>\$ 0.73</u>
Diluted	<u>\$ 1.88</u>	<u>\$ 1.35</u>	<u>\$ 0.73</u>
Weighted-average shares outstanding:			
Basic	1,838	1,944	1,954
Diluted	1,853	1,955	1,962

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DELL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Fiscal Year Ended		
	February 3, 2012	January 28, 2011	January 29, 2010
Cash flows from operating activities:			
Net income	\$ 3,492	\$ 2,635	\$ 1,433
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	936	970	852
Stock-based compensation expense	362	332	312
Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies	(5)	(4)	59
Deferred income taxes	19	(45)	(52)
Provision for doubtful accounts — including financing receivables	234	382	429
Other	21	26	102
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(53)	(707)	(660)
Financing receivables	(372)	(709)	(1,085)
Inventories	(52)	(248)	(183)
Other assets	(28)	516	(225)
Accounts payable	327	(151)	2,833
Deferred services revenue	720	551	135
Accrued and other liabilities	(74)	421	(44)
Change in cash from operating activities	<u>5,527</u>	<u>3,969</u>	<u>3,906</u>
Cash flows from investing activities:			
Investments:			
Purchases	(4,656)	(1,360)	(1,383)
Maturities and sales	1,435	1,358	1,538
Capital expenditures	(675)	(444)	(367)
Proceeds from sale of facilities and land	14	18	16
Purchase of financing receivables	—	(430)	—
Collections on purchased financing receivables	278	69	—
Acquisitions, net of cash received	(2,562)	(376)	(3,613)
Change in cash from investing activities	<u>(6,166)</u>	<u>(1,165)</u>	<u>(3,809)</u>
Cash flows from financing activities:			
Repurchases of common stock	(2,717)	(800)	—
Issuance of common stock under employee plans	40	12	2
Issuance (repayment) of commercial paper (maturity 90 days or less), net	635	(176)	76
Proceeds from debt	4,050	3,069	2,058
Repayments of debt	(1,435)	(1,630)	(122)
Other	4	2	(2)
Change in cash from financing activities	<u>577</u>	<u>477</u>	<u>2,012</u>
Effect of exchange rate changes on cash and cash equivalents	<u>1</u>	<u>(3)</u>	<u>174</u>
Change in cash and cash equivalents	(61)	3,278	2,283
Cash and cash equivalents at beginning of the period	12,012	10,635	8,252
Cash and cash equivalents @ end of the period	13,913	10,635	8,352

Cash and cash equivalents at end of the period	\$	13,852	\$	13,913	\$	10,635
Income tax paid	\$	408	\$	435	\$	434
Interest paid	\$	267	\$	188	\$	151

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

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DELL INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in millions)

	Common Stock and Capital in Excess of Par Value		Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total
	Issued Shares ^(a)	Amount	Shares	Amount			
Balances at January 30, 2009	3,338	\$ 11,189	919	\$ (27,904)	\$ 20,677	\$ 309	\$ 4,271
Net income	—	—	—	—	1,433	—	1,433
Change in net unrealized gain or loss on investments, net of taxes	—	—	—	—	—	6	6
Foreign currency translation adjustments	—	—	—	—	—	(29)	(29)
Change in net unrealized gain or loss on derivative instruments, net of taxes	—	—	—	—	—	(323)	(323)
<i>Total comprehensive income</i>	—	—	—	—	—	—	1,087
Stock issuances under employee plans and other ^(b)	13	3	—	—	—	—	3
Stock-based compensation related	—	312	—	—	—	—	312
Net tax shortfall from employee stock plans	—	(32)	—	—	—	—	(32)
Balances at January 29, 2010	3,351	11,472	919	(27,904)	22,110	(37)	5,641
Net income	—	—	—	—	2,635	—	2,635
Adjustment to consolidate variable interest entities	—	—	—	—	(1)	—	(1)
Change in net unrealized gain or loss on investments, net of taxes	—	—	—	—	—	(1)	(1)
Foreign currency translation adjustments	—	—	—	—	—	79	79
Change in net unrealized gain or loss on derivative instruments, net of taxes	—	—	—	—	—	(112)	(112)
<i>Total comprehensive income</i>	—	—	—	—	—	—	2,600
Stock issuances under employee plans and other ^(b)	18	7	—	—	—	—	7
Repurchases of common stock	—	—	57	(800)	—	—	(800)
Stock-based compensation related	—	332	—	—	—	—	332
Net tax shortfall from employee stock plans	—	(14)	—	—	—	—	(14)
Balances at January 28, 2011	3,369	11,797	976	(28,704)	24,744	(71)	7,766
Net income	—	—	—	—	3,492	—	3,492
Change in net unrealized gain or loss on investments, net of taxes	—	—	—	—	—	13	13
Foreign currency translation adjustments	—	—	—	—	—	(74)	(74)
Change in net unrealized gain or loss on derivative instruments, net of taxes	—	—	—	—	—	71	71
<i>Total comprehensive income</i>	—	—	—	—	—	—	3,502
Stock issuances under employee plans and other ^(b)	21	33	—	—	—	—	33
Repurchases of common stock	—	—	178	(2,741)	—	—	(2,741)

Stock-based compensation related	—	365	—	—	—	—	365
Net tax shortfall from employee stock plans	—	(8)	—	—	—	—	(8)
Balances at February 3, 2012	<u>3,390</u>	<u>\$ 12,187</u>	<u>1,154</u>	<u>\$ (31,445)</u>	<u>\$ 28,236</u>	<u>\$ (61)</u>	<u>\$ 8,917</u>

^(a) Issued shares include 475 million shares of common stock that were issued to a wholly-owned subsidiary during Fiscal 2007. As these shares are held by a wholly-owned subsidiary, they are not included in outstanding shares in our Consolidated Financial Statements.

^(b) Stock issuance under employee plans is net of shares held for employee taxes.

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

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DELL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business — Dell Inc., a Delaware corporation (both individually and together with its consolidated subsidiaries, “Dell”), offers a broad range of technology solutions, including servers and networking products, storage products, services, software and peripherals, mobility products, and desktop PCs. Dell sells its products and services directly to customers through dedicated sales representatives, telephone-based sales, and online sales, and through a variety of other sales distribution channels. Dell's business segments are Large Enterprise, Public, Small and Medium Business (“SMB”), and Consumer. References to Commercial business refer to Large Enterprise, Public, and SMB.

Fiscal Year — Dell's fiscal year is the 52 or 53 week period ending on the Friday nearest January 31. The fiscal year ended February 3, 2012 included 53 weeks, while the fiscal years ended January 28, 2011 and January 29, 2010 included 52 weeks.

Principles of Consolidation — The accompanying consolidated financial statements include the accounts of Dell Inc. and its wholly-owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). All significant intercompany transactions and balances have been eliminated.

Use of Estimates — The preparation of financial statements in accordance with GAAP requires the use of management's estimates. These estimates are subjective in nature and involve judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at fiscal year-end, and the reported amounts of revenues and expenses during the fiscal year. Actual results could differ from those estimates.

Cash and Cash Equivalents — All highly liquid investments, including credit card receivables due from banks, with original maturities of 90 days or less at date of purchase, are reported at fair value and are considered to be cash equivalents. All other investments not considered to be cash equivalents are separately categorized as investments.

Investments — Dell's investments are primarily in debt securities, which are classified as available-for-sale and are reported at fair value (based primarily on quoted prices and market observable inputs) using the specific identification method. Unrealized gains and losses, net of taxes, are reported as a component of stockholders' equity. Realized gains and losses on investments are included in Interest and other, net. An impairment loss will be recognized and will reduce an investment's carrying amount to its fair value when a decline in the fair value of an individual security below its cost or carrying value is determined to be other than temporary.

Dell reviews its investment portfolio quarterly to determine if any investment is other than temporarily impaired. Dell determines an impairment is other than temporary when there is intent to sell the security, it is more likely than not that the security will be required to be sold before recovery in value or it is not expected to recover its entire amortized cost basis (“credit-related loss”). However, if Dell does not expect to sell a debt security, it still evaluates expected cash flows to be received and determines if a credit-related loss exists. In the event of a credit-related loss, only the amount of impairment associated with the credit-related loss is recognized in earnings. Amounts relating to factors other than credit-related losses are recorded as a component of stockholders' equity. See Note 3 of the Notes to Consolidated Financial Statements for additional information.

Allowance for Doubtful Accounts — Dell recognizes an allowance for losses on accounts receivable in an amount equal to the estimated probable losses net of recoveries. The allowance is based on an analysis of historical bad debt experience, current receivables aging, and expected future write-offs, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. The expense associated with the allowance for doubtful accounts is recognized in Selling, general, and administrative expenses.

Financing Receivables —

Financing receivables consist of customer receivables and residual interest. Customer receivables include revolving

loans and fixed-term leases and loans resulting primarily from the sale of Dell products and services. Based on how Dell assesses risk and determines the appropriate allowance levels, Dell has two portfolio segments, (1) fixed-term leases and loans and (2) revolving loans. Portfolio segments are further segregated into classes based on operating segment and whether the receivable was owned by Dell since its inception or was purchased subsequent to its inception. Financing receivables are presented net of the allowance for losses.

Dell retains a residual interest in equipment leased under its fixed-term lease programs. The amount of the residual interest is established at the inception of the lease based upon estimates of the value of the equipment at the end of the lease term using historical studies, industry data, and future value-at-risk demand valuation methods. On a quarterly

Table of Contents**DELL INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

basis, Dell assesses the carrying amount of its recorded residual values for impairment. Anticipated declines in specific future residual values that are considered to be other-than-temporary are recorded currently in earnings.

Allowance for Financing Receivables Losses

Dell recognizes an allowance for losses on financing receivables in an amount equal to the probable losses net of recoveries. The allowance for losses is generally determined at the aggregate portfolio level based on a variety of factors, including historical and anticipated experience, past due receivables, receivable type, and customer risk profile. Customer account principal and interest are charged to the allowance for losses when an account is deemed to be uncollectible or generally when the account is 180 days delinquent. While Dell does not generally place financing receivables on non-accrual status during the delinquency period, accrued interest is included in the allowance for loss calculation and Dell is therefore adequately reserved in the event of charge off. Recoveries on receivables previously charged off as uncollectible are recorded to the allowance for financing receivables losses. The expense associated with the allowance for financing receivables losses is recognized as cost of net revenue. Both fixed and revolving receivable loss rates are affected by macroeconomic conditions, including the level of GDP growth, unemployment rates, the level of commercial capital equipment investment, and the credit quality of the borrower.

Asset Securitization

Dell enters into securitization transactions to transfer certain financing receivables to special purpose entities. During Fiscal 2011, Dell adopted the new accounting guidance that removes the concept of a qualifying special purpose entity and removes the exception from applying variable interest entity accounting. The adoption of the new guidance requires an entity to perform an ongoing analysis to determine whether it has a controlling financial interest in its special purpose entities. As a result of this analysis, Dell has determined that it has a controlling financial interest in its special purpose entities, and therefore, consolidated them into Dell's Consolidated Statements of Financial Position as of February 3, 2012 and January 28, 2011. The asset securitizations in these special purpose entities are being accounted for as secured borrowings. See Note 4 of Notes to Consolidated Financial Statements for additional information on the impact of the consolidation.

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

Property, Plant, and Equipment — Property, plant, and equipment are carried at depreciated cost. Depreciation is provided using the straight-line method over the estimated economic lives of the assets, which range from ten to thirty years for buildings and two to five years for all other assets. Leasehold improvements are amortized over the shorter of five years or the lease term. Gains or losses related to retirements or disposition of fixed assets are recognized in the period incurred. Dell capitalizes eligible internal-use software development costs incurred subsequent to the completion of the preliminary project stage. Development costs are amortized over the shorter of the expected useful life of the software or five years. Costs associated with maintenance and minor enhancements to the features and functionality of Dell's website are expensed as incurred.

Impairment of Long-Lived Assets — Dell reviews long-lived assets for impairment when circumstances indicate the carrying amount of an asset may not be recoverable based on the undiscounted future cash flows of the asset. If the carrying amount of the asset is determined not to be recoverable, a write-down to fair value is recorded. Fair values are determined based on quoted market values, discounted cash flows, or external appraisals, as applicable. Dell reviews long-lived assets for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified.

Business Combinations — Dell accounts for business combinations using the acquisition method of accounting, and accordingly, the assets and liabilities of the acquired business are recorded at their fair values at the date of acquisition. The excess of the purchase price over the estimated fair values is recorded as goodwill. Any changes in the estimated fair values of the net assets recorded for acquisitions prior to the finalization of more detailed analysis, but not to exceed one year from

the date of acquisition, will change the amount of the purchase prices allocable to goodwill. All acquisition costs are expensed as incurred and in-process research and development costs are recorded at fair value as an indefinite-lived intangible asset and assessed for impairment thereafter until completion, at which point the asset is amortized over its expected useful life. Any restructuring charges associated with a business combination are expensed subsequent to the acquisition date. The results of operations of acquired businesses are included in the Consolidated Financial Statements from the acquisition date.

Intangible Assets Including Goodwill— 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. Intangible assets are reviewed for impairment if indicators of potential impairment exist. Goodwill and indefinite-lived intangible assets are tested for impairment on an annual basis in the second fiscal quarter, or sooner if an indicator of