

DELL INC
Form 10-K
March 15, 2011

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

- ☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the fiscal year ended January 28, 2011
- or
- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission file number: 0-17017

Dell Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	74-2487834 (I.R.S. Employer Identification No.)
One Dell Way, Round Rock, Texas 78682 (Address of principal executive offices) (Zip Code)	
Registrant's telephone number, including area code: 1-800-BUY-DELL	

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Common Stock, par value \$.01 per share	Name of each exchange on which registered The NASDAQ Stock Market LLC (NASDAQ Global Select Market)
---	---

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

Edgar Filing: DELL INC - Form 10-K

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

Approximate aggregate market value of the registrant's common stock held by non-affiliates as of July 30, 2010, based upon the last sale price reported for such date on the NASDAQ Global Select Market

\$22.3 billion

Number of shares of common stock outstanding as of March 4, 2011

1,906,749,664

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this report, to the extent not set forth herein, is incorporated by reference from the registrant's proxy statement relating to the annual meeting of stockholders in 2011. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

<u>PART I</u>	Table of Contents	Page
<u>Item 1.</u>	<u>Business</u>	1
<u>Item 1A.</u>	<u>Risk Factors</u>	12
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	18
<u>Item 2.</u>	<u>Properties</u>	18
<u>Item 3.</u>	<u>Legal Proceedings</u>	19
<u>Item 4.</u>	<u>(Removed and Reserved)</u>	19
<u>PART II</u>		
<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	20
<u>Item 6.</u>	<u>Selected Financial Data</u>	22
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	54
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	55
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	113
<u>Item 9A.</u>	<u>Controls and Procedures</u>	113
<u>Item 9B.</u>	<u>Other Information</u>	114
<u>PART III</u>		
<u>Item 10</u>	<u>Directors, Executive Officers and Corporate Governance</u>	115
<u>Item 11</u>	<u>Executive Compensation</u>	117
<u>Item 12</u>		117

Security Ownership of Certain Beneficial Owners and Management and Related
Stockholder Matters

Item 13 Certain Relationships and Related Transactions, and Director Independence 118

Item 14 Principal Accounting Fees and Services 118

PART IV

Item 15. Exhibits, Financial Statement Schedules 119

Signatures 121

Exhibit Index 123

Exhibits

EX-10.12

EX-10.27

EX-12.1

EX-21

EX-23

EX-31.1

EX-31.2

EX-32.1

EX-101 INSTANCE DOCUMENT

EX-101 SCHEMA DOCUMENT

EX-101 CALCULATION LINKBASE DOCUMENT

EX-101 LABELS LINKBASE DOCUMENT

EX-101 PRESENTATION LINKBASE DOCUMENT

EX-101 DEFINITION LINKBASE DOCUMENT

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements. The words may, will, anticipate, estimate, expect, intend, seek and similar expressions as they relate to us or our management are intended to identify these forward-looking statements. All statements by us regarding our expected financial position, revenues, cash flows and other operating results, business strategy, legal proceedings and similar matters are forward-looking statements. Our expectations expressed or implied in these forward-looking statements may not turn out to be correct. Our results could be materially different from our expectations because of various risks, including the risks discussed in this report under Part I Item 1A Risk Factors. Any forward-looking statement speaks only as of the date as of which such statement is made, and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances, including unanticipated events, after the date as of which such statement was made.

Table of Contents

PART I

All percentage amounts and ratios were calculated using the underlying data in thousands. Unless otherwise noted, all references to time periods refer to our fiscal years. Our fiscal year is the 52 or 53 week period ending on the Friday nearest January 31.

Unless the context indicates otherwise, references in this report to we, us, our and Dell mean Dell Inc. and our consolidated subsidiaries.

ITEM 1 BUSINESS

General

Dell delivers innovative technology and services which customers trust and value. As a leading technology company, we offer a broad range of products and services that we believe create optimal solutions for our customers that will provide them with the power to do more.

Our company is a Delaware corporation and was founded in 1984 by Michael Dell on a simple concept: by selling computer systems directly to customers, we can best understand their needs and efficiently provide the most effective computing solutions to meet those needs. Over time we have expanded our business model to include a broader portfolio of products and services, and we have also added new distribution channels, such as retail, system integrators, value-added resellers, and distributors, which allow us to reach even more end-users around the world. We have optimized our global supply chain to best serve our global customer base, with a significant portion of our production capabilities performed by contract manufacturers.

Dell Inc. is a holding company that conducts its business worldwide through its subsidiaries. Our global corporate headquarters is located in Round Rock, Texas. When we refer to our company and its business in this report, we are referring to the business and activities of our consolidated subsidiaries. We operate principally in one industry, and we manage our business in four global customer-oriented operating segments that we identify as Large Enterprise, Public, Small and Medium Business, and Consumer.

We are committed to managing and operating our business in a responsible and sustainable manner around the globe. This includes our commitment to environmental responsibility in all areas of our business. See [Government Regulation and Sustainability](#) below for additional information. This also includes our focus on maintaining a strong control environment, high ethical standards, and financial reporting integrity. See [Part II Item 9A Controls and Procedures](#) for a discussion of our internal control over financial reporting.

Business Strategy

Dell built its reputation as a leading technology provider through listening to customers and developing solutions that meet customer needs. We are focused on providing long-term value creation through the delivery of customized solutions that make technology more efficient, more accessible, and easier to use.

We will continue to focus on shifting our portfolio to higher-margin and recurring revenue streams over time, improving our core business, and maintaining a balance of liquidity, profitability, and growth. We consistently focus on generating strong cash flow returns, which allows us to expand our capabilities and acquire new ones. We seek to grow revenue over the long term while improving operating income and cash flow. In accordance with our

differentiated view of enterprise solutions, we offer our customers open, capable, affordable, and integrated solutions. We have three primary components to our strategy:

Providing Efficient Enterprise Solutions. We are focused on expanding our enterprise solutions and services, which include servers, networking, storage, and services. We believe opportunities for data centers, servers and storage will continue to expand and we are focused on providing these best value, simplification, and more open data center solutions to our customers. These are the kind of solutions that we believe Dell is well positioned to provide. We believe that our installed customer base, access to customers of all sizes, and capabilities position us to achieve growth in our customer solutions business. We will focus our investments to grow our business organically as well as inorganically through alliances and

Table of Contents

strategic acquisitions. Our acquisition strategy will continue to target opportunities that we believe will expand our business by delivering best-value solutions for the enterprise.

Creating a Flexible Value Chain and Accelerating Online Leadership. We seek to profitably grow our desktop and mobility business and enhance the online buying experience for our customers. We have improved our competitiveness through cost efficiency initiatives, which are focused on improving design, supply chain, logistics, and operating expenses to adjust to the changing dynamics of our industry. We will continue our efforts to simplify our product offerings to eliminate complexity that does not generate customer value and focus on product leadership by developing next generation capabilities. Additionally, we will continue to deepen our skill sets and relationships within each of our business units with the goal of delivering best in-class products and services globally.

Balancing Liquidity, Profitability, and Growth. We seek to maintain a strong balance sheet with sufficient liquidity to provide us with the flexibility to respond quickly to changes in our dynamic industry. As we shift our portfolio focus more to enterprise solutions and services, which we believe will improve our profitability, our financial flexibility will allow us to make longer term investments. We continue to manage all of our businesses with the goals of delivering operating income over the long term and balancing this profitability with an appropriate level of long-term revenue growth.

By successfully executing our strategy and driving greater efficiency and productivity in how we operate, we believe we can help customers grow and thrive and create long-term value for our shareholders.

Operating Business Segments

All of our goals begin and end with the customer. Striving to meet and exceed customer needs is at the heart of everything we do. We believe our business segments allow us to serve our customers with faster innovation and greater responsiveness, and enable us to better understand and address their challenges. Our four global business segments are:

Large Enterprise Our Large Enterprise customers include large global and national corporate businesses. We believe that a single large-enterprise unit enhances our knowledge of our customers and improves our advantage in delivering globally consistent and cost-effective solutions and services to many of the world's largest IT users. We seek to continue improving our global leadership and relationships with these customers. Our efforts in this segment will be increasingly focused on delivering innovative products and services through data center and cloud computing solutions.

Public Our Public customers, which include educational institutions, government, health care, and law enforcement agencies, operate in their own communities. Their missions are aligned with their constituents needs. Our customers measure their success against a common goal of improving lives, and they require that their partners, vendors, and suppliers understand their goals and help them achieve their objectives. We intend to further our understanding of our Public customers' goals and missions and extend our leadership in answering their urgent IT challenges. To meet our customers' goals more effectively, we are focusing on simplifying IT, providing faster deployment of IT applications, expanding our enterprise and services offerings, and strengthening our partner relations to build best of breed integrated solutions.

Small and Medium Business (SMB) Our SMB segment is focused on helping small and medium-sized businesses get the most out of their technology by offering open, capable, and affordable solutions, innovative products, and customizable services and solutions. As cloud computing and workforce mobility become a routine part of a growing business's operations, server and storage virtualization facilitate achievement of the

organization's IT goals. Our SMB segment continues to create and deliver SMB-specific solutions so customers worldwide can take advantage of these emerging technologies and grow their businesses.

Consumer Our Consumer segment is focused on what customers want from the total technology experience of entertainment, mobility, gaming, and design. Using insights from listening to our customers around the world, we are designing new, open, innovative products and experiences with fast development cycles and competitive features. We will continue our efforts to deliver high quality entertainment

Table of Contents

capabilities, which represent the changing shape of computing and next generation connectivity for the always-on lifestyle, and innovations for a unified experience across the entire portfolio of Dell Consumer products.

We also refer to our Large Enterprise, Public, and SMB segments as Commercial . For financial information about the results of our reportable operating segments for each of the last three fiscal years, see Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Segment Discussion and Note 16 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data.

Products and Services

Our aim is to provide customers with integrated business solutions. We design, develop, manufacture, market, sell, and support a wide range of products and services that can be customized to individual customer requirements. We also offer or arrange various customer financial services for our business and consumer customers in the U.S.

Enterprise Solutions and Services

Enterprise Solutions

Enterprise solutions includes our servers, networking, and storage products.

Servers and Networking Our standards-based PowerEdge line of servers is designed to offer customers affordable performance, reliability, and scalability. Options include high performance rack, blade, and tower servers for enterprise customers and value tower servers for small organizations, networks, and remote offices. We also offer customized Dell server solutions for large data center customers. During Fiscal 2011, we expanded our PowerEdge rack servers and PowerEdge C cloud offerings. We also expanded our networking product offerings and introduced our PowerConnect J-series. These products serve as part of our mission to help companies of all sizes simplify their IT environments.

Storage We offer a comprehensive portfolio of Dell-branded and third-party advanced storage solutions, including storage area networks, network-attached storage, direct-attached storage, disk and tape backup systems, and removable disk backup. With our advanced storage solutions for mainstream buyers, we offer customers functionality and value while reducing complexity in the enterprise. Our storage systems are easy to deploy, manage, and maintain. The flexibility and scalability offered by our Dell PowerVault and Dell EqualLogic (EqualLogic) storage systems help organizations optimize storage for diverse environments with varied requirements. During Fiscal 2011, we expanded our storage portfolio by adding a variety of increasingly flexible new Dell PowerVault, Dell EqualLogic, and Dell DX Object storage choices that allow customers to grow capacity, add performance and protect their data in a more economical manner. We are shifting towards more Dell-branded storage offerings. In addition, our recent acquisitions of Ocarina Networks, Inc. in Fiscal 2011 and Compellent Technologies, Inc. in early Fiscal 2012 will enable us to expand our storage product offerings. We believe that along with our solid position with the EqualLogic product line, these acquisitions allow us to expand our customer base for mid-range and high-end storage solutions and deliver integrated data management solutions to our customers.

Services

Our services include a broad range of configurable IT and business services, including infrastructure technology, consulting and applications, and product-related support services. Our customer engagement model groups our services with similar demand, economic, and delivery profiles into three categories of services: transactional;

outsourcing; and project-based.

Transactional We offer services that are closely tied to the sale of our servers, storage, and client hardware. These services include support services, managed deployment, enterprise installation, and configuration services.

Table of Contents

Outsourcing Our outsourcing services business is designed to reduce customer costs and help to increase the efficiency and improve the quality of customer business operations. Our outsourcing services include data center and systems management, network management, life cycle application development and management services, and business process outsourcing services. A significant portion of the revenue we derive from our outsourcing services contracts is typically recurring in nature.

Project-based We also offer short-term services that address a wide array of client needs, including IT infrastructure, applications, business process, and business consulting.

Software and Peripherals

We offer Dell-branded printers and displays and a multitude of competitively priced third-party peripheral products such as printers, televisions, notebook accessories, mice, keyboards, networking and wireless products, digital cameras, and other products. We also sell a wide range of third-party software products, including operating systems, business and office applications, anti-virus and related security software, entertainment software, and products in various other categories. We operate an online software store, the Dell Download Store, for consumers and small and medium-sized businesses.

Client Products

Our client products include mobility and desktop products.

Mobility

We offer a variety of mobility products, including laptops, netbooks, tablets and smartphones to our Commercial and Consumer customers.

Commercial Our Latitude, Vostro, and Dell Precision lines of mobility notebooks are designed with our Commercial customers in mind. The Latitude line is designed to help our Commercial customers manage their total cost of ownership through managed product lifecycles. The Vostro line is designed to customize technology, services, and expertise to suit the specific needs of small businesses. We also offer the Precision line of mobile workstations for professional users who demand exceptional performance to run sophisticated applications. During Fiscal 2011, we introduced a new line-up of Latitude laptops, the new Vostro 3000 series laptop computers, the Dell Precision M4500 mobile workstations, and made additions to our Dell Latitude E-family of laptops.

Consumer For our Consumer customers, we offer the Inspiron, XPS and Alienware lines of laptops. The Inspiron line of notebook computers is designed for those seeking the latest technology and high performance in a stylish and affordable package. During Fiscal 2011, we introduced additional models to our Inspiron family of notebooks including the Inspiron Duo, a tablet computer that easily converts to a laptop. Our Alienware line includes high performance gaming systems targeted at customers seeking high-quality experiences and cutting edge designs. In addition, during Fiscal 2011, we introduced a new family of XPS laptops that are designed to provide the ultimate entertainment experience in sound, graphics and 3D-capabilities.

Desktop PCs

Our desktops PCs consist of the Optiplex, Precision, and Vostro lines, which are targeted to our Commercial customers, and the Inspiron, XPS, and Alienware lines, which are designed with our Consumer customers in mind.

Commercial The OptiPlex line of desktops allows our Commercial customers to manage their total cost of ownership by providing them with a portfolio of secure, manageable, and stable lifecycle products. The Vostro line is designed to provide technology and services to suit the specific needs of small businesses. Dell Precision desktop workstations are intended for professional users who demand exceptional performance from hardware platforms optimized and certified to run sophisticated applications, such as those needed for three-dimensional computer-aided design, digital content

Table of Contents

creation, geographic information systems, computer animation, software development, computer-aided engineering, game development, and financial analysis.

Consumer The Inspiron line of desktop computers is designed for mainstream PC users requiring the latest features for their productivity and entertainment needs. We target sales of the Alienware line of desktop computers to customers seeking features ranging from multimedia capability to high performance gaming. Our XPS desktops are designed for customers seeking high performance for the most demanding entertainment needs.

Financial Services

We offer or arrange various customer financial services for our business and consumer customers in the U.S. through Dell Financial Services L.L.C. (DFS), a wholly-owned subsidiary of Dell. DFS offers a wide range of financial services, including originating, collecting, and servicing customer receivables related to the purchase of Dell products. DFS offers private label credit financing programs, through an unrelated, nationally chartered bank, to qualified consumer and commercial customers and offers leases and fixed-term financing to commercial customers. Financing through DFS is one of many sources of funding that our customers may select. For additional information about our financing arrangements, see Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Financing Receivables and Note 4 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data. Currently, to support the financing needs of our customers internationally, we have aligned with a select number of third party financial services companies. These financial services companies work directly with our customers to originate and service financing arrangements, enabling customers to finance and purchase Dell products and services. We are exploring the possibility of expanding the DFS operations into select international markets, with the expectation that we will continue to work with third parties where appropriate.

For additional information about our products and services, see Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Revenue by Product and Services Categories, and Notes 4 and 16 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data.

Product Development

We focus on developing modular and scalable technologies that incorporate highly desirable features and capabilities at competitive prices. We employ a collaborative approach to product design and development in which our engineers, with direct customer input, design innovative solutions and work with a global network of technology companies to architect new system designs, influence the direction of future development, and integrate new technologies into our products. Through this collaborative, customer-focused approach, we strive to deliver new and relevant products, such as our enterprise solutions, and services to the market quickly and efficiently. Our total research, development, and engineering expenses were \$661 million for Fiscal 2011, \$624 million for Fiscal 2010, and \$665 million for Fiscal 2009.

Manufacturing and Materials

Third parties manufacture the majority of the client products we sell under the Dell brand. We have expanded our use of contract manufacturers and manufacturing outsourcing relationships to achieve our goals of generating cost efficiencies, delivering products faster, better serving our customers, and building a world-class supply chain. Our manufacturing facilities are located in Austin, Texas; Penang, Malaysia; Xiamen, China; Hortolândia, Brazil; Chennai, India; and Lodz, Poland. Beginning in Fiscal 2009, we have reduced our fixed costs by selling, closing and

consolidating manufacturing and other facilities, and have moved toward a more variable cost manufacturing model. In connection with our implementation of this model, we have announced the sale of our Poland facility, which is expected to be finalized in the first half of Fiscal 2012. See Part I Item 2 Properties for information about our manufacturing and distribution locations.

Our manufacturing process consists of assembly, software installation, functional testing, and quality control. Testing and quality control processes are also applied to components, parts, sub-assemblies, and systems obtained

Table of Contents

from third-party suppliers. Quality control is maintained through the testing of components, sub-assemblies, and systems at various stages in the manufacturing process. Quality control also includes a burn-in period for completed units after assembly, ongoing production reliability audits, failure tracking for early identification of production and component problems, and information from customers obtained through services and support programs. We are certified to the ISO (International Organization for Standardization) 9001: 2008 Quality management systems standard. This certification includes most of our global sites that design, manufacture, and service our products.

We purchase materials, supplies, product components, and products from a large number of vendors. In some cases, multiple sources of supply are not available and hence we have to rely on single-source vendors. In other cases, we may establish a working relationship with a single source or a limited number of sources if we believe it is advantageous to do so due to performance, quality, support, delivery, capacity, or price considerations. These relationships and dependencies have not caused material supply disruptions in the past, and we believe that any disruption that may occur because of our dependency on single- or limited-source vendors would not disproportionately disadvantage us relative to our competitors. See Part I Item 1A Risk Factors for information about the risks associated with single- or limited-source suppliers.

Geographic Operations

Our global corporate headquarters is located in Round Rock, Texas. We have operations and conduct business in many countries located in the Americas, Europe, the Middle East, Asia and other geographic regions. We have invested in high growth countries such as Brazil, Russia, India, and China, which we refer to as BRIC, and we expect to continue our global expansion in the years ahead. Our continued expansion outside of the U.S. creates additional complexity in coordinating the design, development, procurement, manufacturing, distribution, and support of our increasingly complex product and service offerings. For additional information on our product and service offerings, see Products and Services Manufacturing and Materials and Part I Item 2 Properties. For information about percentages of revenue we generated from our operations outside of the U.S. and other financial information for each of the last three fiscal years, see Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations and Note 16 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data.

Competition

We operate in an industry in which there are rapid technological advances in hardware, software, and service offerings and we face ongoing product and price competition in all areas of our business including both branded and generic competitors. We compete based on our ability to offer to our customers competitive, open, capable, affordable, and integrated solutions that provide the most current and desired product and services features. We believe that our strong relationships with our customers and our distribution channels, such as retail, system integrators, value-added resellers, distributors, and channel partners, allow us to respond to changing customer needs faster than many of our competitors. This connection with our customers allows us to best meet customer needs and is one of our competitive advantages.

Sales and Marketing

We sell our products and services directly to customers through our online store at www.dell.com, dedicated sales representatives, telephone-based sales, and a variety of indirect sales channels. Our customers include large global and national corporate businesses, public institutions including government, education and healthcare organizations, and law enforcement agencies. Our customers also include small and medium-sized businesses, and individual customers. Within each geographic region, we have divided our sales resources among these various customer groups. No single customer accounted for more than 10% of our consolidated net revenue during any of the last three fiscal years.

Our sales efforts are organized around the evolving needs of our customers, and our marketing initiatives reflect this with our brand, the power to do more. Our direct business model emphasizes direct communication with our customers, thereby allowing us to refine our products and marketing programs for specific customer groups. Customers may offer suggestions for current and future Dell products, services, and operations on an interactive

Table of Contents

portion of our Internet website called Dell IdeaStorm. In addition, in order to react quickly to our customers' needs, we track our Net Promoter Score, a customer loyalty metric that is widely used across various industries. Increasingly, we also engage with customers through our social media communities on Dell.com and in external social media channels. This constant flow of communication allows us to rapidly gauge customer satisfaction, respond to our customers' needs, and develop solutions that help them achieve their goals.

For large business and institutional customers, we maintain a field sales force throughout the world. Dedicated account teams, which include field-based enterprise solution specialists, form long-term relationships to provide our largest customers with a single source of assistance, develop specific tailored solutions for these customers, and provide us with customer feedback. For large, multinational customers, we offer several programs designed to provide single points of contact and accountability with global account specialists, special global pricing, and consistent global service and support programs. We also maintain specific sales and marketing programs targeted at federal, state, and local governmental agencies, as well as healthcare and educational customers.

We market our products and services to small and medium-sized businesses and consumers primarily by advertising on television and through the Internet, advertising in a variety of print media, and mailing or emailing a broad range of direct marketing publications, such as promotional materials, catalogues, and customer newsletters.

We also sell our products and services through indirect sales channels. In the U.S., we sell products indirectly through third-party solution providers, system integrators, and third-party resellers. We also offer select consumer products in retail stores in the Americas, Europe, the Middle East, and Africa, which we refer to as EMEA, and Asia-Pacific Japan, which we refer to as APJ. Outside the U.S., we sell products indirectly through selected retailers to benefit from the retailers' existing end-user customer relationships and valuable knowledge of traditional customs and logistics in the country and to mitigate credit and country risk, as well as because sales in some countries may be too small to warrant a direct sales business unit. Our goal is to have strategic relationships with a number of major retailers in larger geographic regions. Retailers who currently sell our products include Best Buy, Staples, Wal-Mart, DSGI, GOME, and Carrefour, among others.

Patents, Trademarks, and Licenses

At January 28, 2011, we held a worldwide portfolio of 2,991 patents and had an additional 1,972 patent applications pending. We also hold licenses to use numerous third-party patents. To replace expiring patents, we obtain new patents through our ongoing research and development activities. The inventions claimed in our patents and patent applications cover aspects of our current and possible future computer system products, manufacturing processes, and related technologies. Our product, business method, and manufacturing process patents may establish barriers to entry in many product lines. While we use our patented inventions and also license them to others, we are not substantially dependent on any single patent or group of related patents. We have entered into a variety of intellectual property licensing and cross-licensing agreements. We have also entered into various software licensing agreements with other companies. We anticipate that our worldwide patent portfolio will be of value in negotiating intellectual property rights with others in the industry.

We have obtained U.S. federal trademark registration for the DELL word mark and the Dell logo mark. We own registrations for 99 of our other trademarks in the U.S. At January 28, 2011, we had pending applications for registration of 15 other trademarks. We believe that establishment of the DELL word mark and logo mark in the U.S. is material to our operations. We have also applied for or obtained registration of the DELL word mark and several other marks in approximately 195 other countries.

From time to time, other companies and individuals assert exclusive patent, copyright, trademark, or other intellectual property rights to technologies or marks that are important to the technology industry or our business. We evaluate

each claim relating to our products and, if appropriate, seek a license to use the protected technology. The licensing agreements generally do not require the licensor to assist us in duplicating its patented technology, nor do these agreements protect us from trade secret, copyright, or other violations by us or our suppliers in developing or selling these products.

Table of Contents

Government Regulation and Sustainability

Government Regulation

Our business is subject to regulation by various U.S. federal and state governmental agencies and other governmental agencies. Such regulation includes the radio frequency emission regulatory activities of the U.S. Federal Communications Commission; the anti-trust regulatory activities of the U.S. Federal Trade Commission, the U.S. Department of Justice, and the European Union; the consumer protection laws and financial services regulations of the U.S. Federal Trade Commission and various state governmental agencies; the export regulatory activities of the U.S. Department of Commerce and the U.S. Department of Treasury; the import regulatory activities of U.S. Customs and Border Protection; the product safety regulatory activities of the U.S. Consumer Product Safety Commission and the U.S. Department of Transportation; the investor protection and capital markets regulatory activities of the U.S. Securities and Exchange Commission; and the environmental, employment and labor, and other regulatory activities of a variety of governmental authorities in each of the countries in which we conduct business. We were not assessed any material environmental fines, nor did we have any material environmental remediation or other environmental costs, during Fiscal 2011.

Sustainability

Environmental stewardship and social responsibility are both integral parts of how we manage our business, and complement our focus on business efficiencies and customer satisfaction. We use open dialogue with our stockholders, customers, vendors, and other stakeholders as part of our sustainability governance process where we take candid feedback and offer honest discussions on the challenges we face globally. Our environmental initiatives take many forms, including maximizing product energy efficiency, reducing and eliminating sensitive materials from our products, and providing responsible, convenient computer recycling options for customers.

We are committed to reducing our greenhouse gas emissions. We have set business requirements for our suppliers to disclose and reduce their greenhouse gas impacts. We were the first company in our industry to offer a free worldwide recycling program for our consumers. We also provide consumers with no-charge recycling of any brand of computer or printer with the purchase of a new Dell computer or printer. We have streamlined our transportation network to reduce transit times, minimize air freight and reduce emissions. Our packaging is designed to minimize box size and to increase recycled content of materials along with recyclability. When developing and designing products, we select materials guided by a precautionary approach in which we seek to eliminate environmentally sensitive substances (where reasonable alternatives exist) from our products and work towards developing reliable, environmentally sound, and commercially scalable solutions. We also have created a series of tools that help customers assess their current IT operations and uncover ways to reduce both the costs of those operations and their impact on the environment.

Product Backlog

We believe that product backlog is not a meaningful indicator of net revenue that can be expected for any period. Our business model generally gives us flexibility to manage product backlog at any point in time by expediting shipping or prioritizing customer orders toward products that have shorter lead times, thereby reducing product backlog and increasing current period revenue. Moreover, product backlog at any point in time may not translate into net revenue in any subsequent period, as unfilled orders can generally be canceled at any time by the customer.

Trademarks and Service Marks

Unless otherwise noted, trademarks appearing in this report are trademarks owned by us. We disclaim proprietary interest in the marks and names of others. EMC is a registered trademark of EMC Corporation. Windows 7 is a

registered trademark of Microsoft Corporation. FICO is a registered trademark of Fair Isaac and Company. Net Promoter Score is a trademark of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld.

Table of Contents**Available Information**

The mailing address of our principal executive offices is One Dell Way, Round Rock, Texas 78682. Our telephone number is 1-800-BUY-DELL.

We maintain an Internet website at www.dell.com. All of our reports filed with the SEC (including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports) are accessible through the Investor Relations section of our website at www.dell.com/investor, free of charge, as soon as reasonably practicable after we electronically file the reports with the SEC. You may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov. Information on our website is not incorporated by reference into this report and does not otherwise form a part of this report.

Employees

At the end of Fiscal 2011, we had approximately 103,300 total employees (consisting of 100,300 regular employees and 3,000 temporary employees), compared to approximately 96,000 total employees (consisting of 94,300 regular employees and 1,700 temporary employees) at the end of Fiscal 2010. Our acquisition of Perot Systems Corporation in Fiscal 2010 added 23,800 regular employees. Approximately 36,900 of the regular employees at the end of Fiscal 2011 were located in the U.S., and approximately 63,400 regular employees were located in other countries.

Executive Officers of Dell

The following table sets forth the name, age, and position of each of the persons who were serving as our executive officers as of March 4, 2011:

Name	Age	Title
Michael S. Dell	46	Chairman of the Board and Chief Executive Officer
Bradley R. Anderson	51	Senior Vice President, Enterprise Product Group
Paul D. Bell	50	President, Public and Large Enterprise
Jeffrey W. Clarke	48	Vice Chairman, Operations and Technology
Stephen J. Felice	53	President, Consumer, Small and Medium Business
Brian T. Gladden	46	Senior Vice President and Chief Financial Officer
David L. Johnson	57	Senior Vice President, Strategy
Steve H. Price	47	Senior Vice President, Human Resources
Karen H. Quintos	53	Senior Vice President and Chief Marketing Officer
Ronald Rose	59	Senior Vice President, E-Commerce & Information Technology
Stephen F. Schuckebrock	50	President, Services
Lawrence P. Tu	56	Senior Vice President, General Counsel and Secretary

Our executive officers are elected annually by, and serve at the pleasure of, our Board of Directors.

Set forth below is biographical information about each of our executive officers.

Michael S. Dell Mr. Dell currently serves as Chairman of the Board of Directors and Chief Executive Officer. He has held the title of Chairman of the Board since he founded Dell in 1984. Mr. Dell also served as Chief Executive Officer of Dell from 1984 until July 2004 and resumed that role in January 2007. He serves on the Foundation Board of the World Economic Forum, the executive committee of the International Business Council, and is a member of the U.S. Business Council. He also sits on the Technology CEO Council and the governing board of the Indian School of Business in Hyderabad, India.

Table of Contents

Bradley R. Anderson Mr. Anderson joined us in July 2005 and has served as Senior Vice President, Enterprise Product Group since January 2009. In this role, he is responsible for worldwide engineering, design, development and marketing of Dell's enterprise products, including servers, networking and storage systems. From July 2005 until January 2009, Mr. Anderson served as Senior Vice President, Business Product Group. Prior to joining Dell, Mr. Anderson was Senior Vice President and General Manager of the Industry Standard Servers business at Hewlett-Packard Company (HP), where he was responsible for HP's server solutions. Previously, he was Vice President of Server, Storage, and Infrastructure for HP, where he led the team responsible for server, storage, peripheral, and infrastructure products. Before joining HP in 1996, Mr. Anderson held top management positions at Cray Research in executive staff, field marketing, sales, finance, and corporate marketing. Mr. Anderson earned a Bachelor of Science degree in Petroleum Engineering from Texas A&M University and a Master of Business Administration degree from Harvard University.

Paul D. Bell Mr. Bell has been with us since 1996 and currently serves as President, Public and Large Enterprise a position he has held since January 2011. Mr. Bell has been responsible for the Public business since January 2009, where he is responsible for leading the teams that help governments, education, healthcare and other public organizations make full use of information technology. Beginning in January of 2011, he has also assumed the responsibilities of the Large Enterprise business, leading the delivery of innovative and globally consistent Dell solutions and services to the world's largest corporate IT users. From March 2007 until January 2009, Mr. Bell served as Senior Vice President and President, Americas. In this role, Mr. Bell was responsible for all sales and customer support operations across the Americas region other than our Consumer business. From February 2000 until March 2007, Mr. Bell served as Senior Vice President and President, Europe, Middle East, and Africa. Prior to service in this position, Mr. Bell served as Senior Vice President, Home and Small Business. Prior to joining Dell in July 1996, Mr. Bell was a management consultant with Bain & Company for six years, including two years as a consultant on our account. Mr. Bell received Bachelor's degrees in Fine Arts and Business Administration from Pennsylvania State University and a Master of Business Administration degree from the Yale School of Organization and Management.

Jeffrey W. Clarke Mr. Clarke currently serves as Vice Chairman, Operations and Technology. In this role, in which he has served since January 2009, he is responsible for worldwide engineering, design and development of Dell's business client products, including Dell OptiPlex Desktops, Latitude Notebooks and Precision Workstations, and production of all company products worldwide. From January 2003 until January 2009, Mr. Clarke served as Senior Vice President, Business Product Group. In 1995, Mr. Clarke became the director of desktop development, and from November 2001 to January 2003 he served as Vice President and General Manager, Relationship Product Group. Mr. Clarke joined Dell in 1987 as a quality engineer and has served in a variety of engineering and management roles. Mr. Clarke received a Bachelor's degree in Electrical Engineering from the University of Texas at San Antonio.

Stephen J. Felice Mr. Felice currently serves as President, Consumer, Small and Medium Business, a position he has held since November 2009. Mr. Felice leads the Dell organization that creates and delivers specific solutions and technology to small and medium-sized businesses globally and is responsible for Dell's portfolio of consumer products, including desktops, laptops, software and peripherals as well as product design and sales. From January 2009 until November 2009, Mr. Felice served as President, Small and Medium Business, and from March 2007 until January 2009, as Senior Vice President and President, Asia Pacific-Japan, after having served as Vice President, Asia Pacific-Japan since August 2005. Mr. Felice was responsible for our operations throughout the APJ region, including sales and customer service centers in Penang, Malaysia, and Xiamen, China. From February 2002 until July 2005, Mr. Felice was Vice President, Corporate Business Group, Dell Americas. Mr. Felice joined us in February 1999 and has held various

executive roles in our sales and consulting services organizations. Prior to joining Dell, Mr. Felice served as Chief Executive Officer and President of DecisionOne Corp. Mr. Felice also served as Vice President, Planning and Development, with Bell Atlantic Customer Services, and he spent five years with Shell Oil in Houston. Mr. Felice holds a Bachelor's degree in Business Administration from the University of Iowa and a Master of Business Administration degree from the University of Houston.

Table of Contents

Brian T. Gladden Mr. Gladden serves as Senior Vice President and Chief Financial Officer (CFO). In this role, in which he has served since June 2008, he is responsible for all aspects of Dell's finance functions, including accounting, financial planning and analysis, tax, treasury, investor relations, and is also responsible for our global security and facilities. Prior to joining Dell, Mr. Gladden was President and CEO of SABIC Innovative Plastics Holding BV from August 2007 through May 2008. Prior to this role, Mr. Gladden spent nearly 20 years with General Electric Company (GE) in a variety of financial and management leadership roles. Mr. Gladden serves as co-chair of the Tech CFO Leadership Group, whose mission is to advance critical policy issues that promote U.S. competitiveness. He is also a member of the University of Texas McCombs School of Business Advisory Council. Mr. Gladden earned a Bachelor of Science degree in Business Administration and Finance from Millersville University in Millersville, Pennsylvania.

David L. Johnson Mr. Johnson serves as Senior Vice President, Corporate Strategy and Business Development, for Dell. He joined Dell in June of 2009 as Senior Vice President, Corporate Strategy. In this role, he works with Michael Dell on the development of short-and long-term strategy, and also with leaders of the company's global business units on their respective growth strategies. In June 2010, Mr. Johnson assumed the responsibility for Dell's Business Development strategy, including responsibility for Dell's merger and acquisition strategy as well as other strategic investments. Mr. Johnson previously spent 27 years at IBM in a variety of corporate-development and finance roles, and was a member of the company's senior leadership team. Mr. Johnson holds both an MBA and a Bachelor's degree in English from Boston College.

Steven H. Price Mr. Price currently serves as Senior Vice President, Human Resources. In this role, he is responsible for overall human resources (HR) strategy in support of the purpose, values and business initiatives of Dell. He is also responsible for developing and driving people strategy and fostering an environment where the global Dell team thrives. Mr. Price joined Dell in September 1997 and has played leadership roles throughout the HR organization, including Vice President of HR for the global Consumer business, Global Talent Management and Americas Human Resources. From November 2006 until June 2010, he served as Vice President, Human Resources Dell Global Consumer Group. From January 2003 until November 2006, he served as Vice President, Human Resources Dell Americas Business Group. From July 2001 until January 2003, he served as Vice President, Human Resources Global HR Operations. From May 1999 to July 2001, he served as Vice President, Human Resources Dell EMEA. Prior to joining Dell in 1997, Mr. Price spent 13 years with SC Johnson Wax, based in Racine, Wisconsin. Having started his career there in sales, he later moved into HR, where he held a variety of senior positions. Mr. Price is a member of the Executive Advisory Board for the Rawls College of Business at Texas Tech University and also serves on the Executive Advisory Board for The Wharton School at the University of Pennsylvania. He holds a Bachelor's degree in Business from Southwestern Oklahoma State University and a Master's degree in Business Administration from the University of Central Oklahoma.

Karen Quintos Karen Quintos is Senior Vice President and Chief Marketing Officer (CMO) for Dell, where she is responsible for bringing the company's brand to life for Dell customers, team members and stakeholders around the world. She leads brand strategy, global communications, social media, corporate responsibility, global research, marketing talent development and agency management. Before becoming CMO for Dell in September 2010, Ms. Quintos served as Vice President of Dell's global Public business, from January 2008 to September 2010, and was responsible for driving global marketing strategies, product and pricing programs, communications and channel plans. She has also held various executive roles in Small and Medium Business marketing, Dell's Services and Supply Chain Management teams since joining Dell in 2000. She came to Dell from Citigroup, where she served as Vice President of Global Operations and Technology. She also spent 12 years with Merck & Co., where she held a variety of roles in marketing, planning, operations and supply chain. Ms. Quintos holds a Master's degree in Marketing and International Business from New York

University and a Bachelor of Science degree in Supply Chain Management from The Pennsylvania State University State College. She has served on multiple boards of directors and currently serves on the Susan G. Komen for the Cure, Penn State's Smeal Business School

Table of Contents

Board of Visitors, Association of National Advertisers, the Ad Council and Dell's Women's Networking Board.

Ronald V. Rose Mr. Rose joined Dell in May 2010 as Senior Vice President of Dell.com, where he oversees global online platforms for Dell, including the company's Web site, its customer Premier Pages and its online customer support. He is responsible for driving the strategy, execution and measurement for Dell.com, one of the leading ecommerce destinations for people around the world. From 1999 until joining Dell, Mr. Rose led technology at priceline.com as Chief Information Officer. He helped build its reputation for outstanding technology execution, and was instrumental in building and managing the IT infrastructure that provides travel services in 90 countries around the world. Prior to joining priceline.com in 1999, Mr. Rose was Chief Technology Officer for Standard & Poor's Retail Markets, where he led many of the company's most advanced technology initiatives. He has also worked as a technology management consultant for international travel companies. A published technology author, Mr. Rose earned a Master's degree in Information Technology from Georgia Tech. He also holds a Bachelor's degree in Science from Tulane University and a Bachelor's degree in Science from the University of Aberdeen, Scotland.

Stephen F. Schuckenbrock Mr. Schuckenbrock currently serves as President, Services. In this role, he is responsible for developing and delivering a best-in-class suite of intelligent, end-to-end IT services and business solutions for global corporations, government, health care, educational institutions and medium-sized businesses in more than 180 countries around the world. Mr. Schuckenbrock joined us in January 2007 as Senior Vice President and President, Global Services. In September 2007, he assumed the additional role of Chief Information Officer, and he served in those roles until January 2009. In those roles, he was responsible for all aspects of our services business, with worldwide responsibility for Dell enterprise service offerings, and was also responsible for our global information systems and technology structure. From January 2009 until re-assuming the Services role in January 2011, Mr. Schuckenbrock was President, Large Enterprise, leading the delivery of innovative and globally consistent Dell solutions and services to the world's largest corporate IT users. Prior to joining Dell, Mr. Schuckenbrock served as Co-Chief Operating Officer and Executive Vice President of Global Sales and Services for Electronic Data Systems Corporation (EDS). Before joining EDS in 2003, he was Chief Operating Officer of The Feld Group, an information technology consulting organization. Mr. Schuckenbrock served as Global Chief Information Officer at PepsiCo from 1995 to 2000. Mr. Schuckenbrock earned a Bachelor's degree in Business Administration from Elon University.

Lawrence P. Tu Mr. Tu joined us as Senior Vice President, General Counsel and Secretary in July 2004, and is responsible for overseeing Dell's global legal, governmental affairs, and ethics and compliance departments. Before joining Dell, Mr. Tu served as Executive Vice President and General Counsel at NBC Universal for three years. Prior to his position at NBC, he was a partner with the law firm of O'Melveny & Myers LLP, where he focused on energy, technology, Internet, and media-related transactions. He also served five years as managing partner of the firm's Hong Kong office. Mr. Tu's prior experience also includes serving as General Counsel Asia-Pacific for Goldman Sachs, attorney for the U.S. State Department, and law clerk for U.S. Supreme Court Justice Thurgood Marshall. Mr. Tu holds Juris Doctor and Bachelor of Arts degrees from Harvard University, as well as a Master's degree from Oxford University, where he was a Rhodes Scholar.

ITEM 1A RISK FACTORS

Our business, operating results, financial condition and prospects are subject to a variety of significant risks, many of which are beyond our control. The following is a description of some of the important risk factors that may cause our actual results in future periods to differ substantially from those we currently expect or seek.

We face intense competition, which may adversely affect our industry unit share position, revenue, and profitability.

We operate in an industry in which there are rapid technological advances in hardware, software, and service offerings, and we face aggressive product and price competition from both branded and generic competitors. We compete based on our ability to offer to our customers competitive open, capable,

Table of Contents

affordable, and integrated solutions that provide the most current and desired product and services features. We expect that competition will continue to be intense, and there is a risk our competitors' products may be less costly, provide better performance or include additional features when compared to our products. Moreover, our efforts to balance our mix of products and services to optimize profitability, liquidity, and growth may put pressure on our industry unit share position.

In addition to competitive factors we face as a result of the current state of our business and our industry, we confront additional competitive challenges as our business and industry continue to grow and evolve. As we expand globally, we may see new and increased competition in different geographic regions. Moreover, the generally low barriers to entry in our business increase the potential for challenges from new industry competitors. We may also see increased competition from new types of products as the options for mobile and cloud computing solutions increase. Further, as our industry evolves and our company grows, companies with which we have strategic alliances may become competitors in other product areas or our current competitors may enter into new strategic relationships with new or existing competitors, all of which may further increase the competitive pressures we face.

If our cost efficiency measures are not successful, we may become less competitive.

We continue to focus on minimizing our operating expenses through cost improvements and simplifying our structure. However, certain factors may prevent the achievement of these goals, which may in turn negatively affect our competitive position. For example, we may experience delays or unanticipated costs in implementing our cost efficiency plans. As a result, we may not achieve our expected cost efficiencies in the time anticipated, or at all.

We may not successfully execute our growth strategy if we fail to manage effectively the change involved in implementing our strategic initiatives.

Our growth strategy involves reaching more customers through new distribution channels, expanding our relationships with resellers, and augmenting select areas of our business through targeted acquisitions and other commercial arrangements. As we reach more customers through new distribution channels and expanded reseller relationships, we may fail to manage in an effective manner the increasingly difficult tasks of inventory management and demand forecasting. Our ability to accomplish the goals of our growth strategy depends on our success in transitioning our sales capabilities in accordance with our strategy, adding to the breadth of our higher margin offerings through selective acquisitions of other businesses, and managing the effects of these strategic initiatives. If we are unable to meet these challenges, our results of operations could be unfavorably affected.

Our inability to manage solutions, product, and services transitions in an effective manner could reduce the demand for our solutions, products and services and the profitability of our operations.

Continuing improvements in technology result in frequent new solutions, product, and services introductions, short product life cycles, and improvements in product performance characteristics. If we cannot manage in an effective manner the transition to new solutions offerings and these offerings' new products and services, customer demand for our solutions, products and services could diminish and our profitability could suffer. We are increasingly sourcing new products and transitioning existing products through our contract manufacturers and manufacturing outsourcing relationships in order to generate cost efficiencies, deliver products faster, and better serve our customers. The success of product transitions depends on a number of factors that include the availability of sufficient quantities of components at attractive costs. In addition, product transitions present execution challenges and risks, including the risk that new or upgraded products may have quality issues or other defects.

Adverse global economic conditions and instability in financial markets may harm our business and result in reduced net revenue and profitability.

As a global company with customers in virtually every business and industry, our performance depends significantly on global economic conditions. Adverse economic conditions may negatively affect customer demand for our products and services and result in postponed or decreased spending amid customer

Table of Contents

concerns over unemployment, reduced asset values, volatile energy costs, geopolitical issues, the availability and cost of credit, and the stability and solvency of financial institutions, financial markets, businesses, local and state governments, and sovereign nations. Weak global economic conditions also could harm our business by contributing to potential product shortages or delays, insolvency of key suppliers, potential customer and counterparty insolvencies, and increased challenges in conducting our treasury operations. All of these possible effects of weak global economic conditions could negatively impact our net revenue and profitability.

Our ability to generate substantial non-U.S. net revenue is subject to additional risks and uncertainties.

Sales outside the U.S. accounted for approximately 48% of our consolidated net revenue for Fiscal 2011. Our future growth rates and success are substantially dependent on continued growth of our business outside the U.S., including in the key emerging countries of Brazil, Russia, India, and China. Our international operations face many risks and uncertainties, including varied local economic and labor conditions, political instability, changes in those regulatory environments, trade protection measures, tax laws (including U.S. taxes on foreign operations), copyright levies, and foreign currency exchange rates. Any of these factors could adversely affect our operations and profitability.

Weak economic conditions and additional regulation could harm our financial services activities.

Our financial services activities are negatively affected by an adverse economic environment through related loan delinquencies and defaults. Although loan delinquencies and defaults continue to slow from higher levels in recent periods, an increase in defaults would result in greater net credit losses, which may require us to increase our reserves for customer receivables in the future. In addition, the implementation of new financial services regulation could unfavorably impact the profitability and cash flows of our consumer financing activities.

If we fail to achieve favorable pricing from our vendors, our profitability could be adversely affected.

Our profitability is affected by our ability to achieve favorable pricing from our vendors and contract manufacturers, including through negotiations for vendor rebates, marketing funds, and other vendor funding received in the normal course of business. Because these supplier negotiations are continuous and reflect the ongoing competitive environment, the variability in timing and amount of incremental vendor discounts and rebates can affect our profitability. These vendor programs may change periodically, potentially resulting in adverse profitability trends if we cannot adjust pricing or cost variables. Our inability to establish a cost and product advantage, or determine alternative means to deliver value to our customers, may adversely affect our industry unit share position, revenue, and profitability.

If we fail to deliver consistent quality products and services, demand for our products and profits could be negatively impacted.

In selling our extensive line of products and services, many of which include third-party components, we must identify and address any quality issues associated with our offerings. Although quality testing is performed regularly to detect any quality problems and implement required solutions, our failure to identify and correct significant product quality issues before sale could result in lower sales, increased warranty or replacement expenses, and diminished customer confidence that could harm our operating results.

Our reliance on vendors for products and components, many of whom are single-source or limited source suppliers, could harm our business by adversely affecting product availability, delivery, reliability and cost.

We maintain several single-source or limited-source supplier relationships, either because multiple sources are not readily available or because the relationships are advantageous to us due to performance, quality, support, delivery,

capacity, or price considerations. If the supply of a critical single- or limited-source product or component is delayed or curtailed, we may not be able to ship the related product in desired quantities and in a timely manner. Even where multiple sources of supply are available, qualification of the

Table of Contents

alternative suppliers and establishment of reliable supplies could result in delays and a possible loss of sales, which could harm our operating results.

We obtain many of our products and all of our components from third-party vendors, many of which are located outside of the U.S. In addition, significant portions of the products we sell are now assembled by contract manufacturers, primarily in various parts of Asia. A significant concentration of this outsourced manufacturing is currently performed by only a few of our contract manufacturers, often in single locations. We sell components to these contract manufacturers and generate large non-trade accounts receivables, an arrangement that presents a risk of uncollectibility if the financial condition of a contract manufacturer should deteriorate.

While these relationships generate cost efficiencies, they reduce our direct control over production. Our increasing reliance on these vendors subjects us to a greater risk of shortages, and reduced control over delivery schedules of components and products, as well as a greater risk of increases in product and component costs. Because we maintain minimal levels of component and product inventories, a disruption in component or product availability could harm our financial performance and our ability to satisfy customer needs. In addition, defective parts and products from these vendors could reduce product reliability and harm our reputation.

We may not successfully implement our acquisition strategy.

We acquire companies as a part of our growth strategy. These acquisitions may involve significant new risks and uncertainties that could adversely affect our profitability or operations, including distraction of management attention from a focus on our current business operations, insufficient new revenue to offset expenses, inadequate return of capital, integration challenges, retention of employees of acquired businesses, new regulatory requirements, and issues not discovered in our due diligence process. Further, our acquisitions may negatively impact our relationships with strategic partners if these acquisitions are seen as bringing us into competition with such partners. In addition, if we make changes in our business strategy or if external conditions adversely affect our business operations, we may be required to record an impairment charge for goodwill or intangibles, which would lead to decreased assets and reduced net operating performance.

Our profitability may be adversely affected by our product, customer, and geographic sales mix and by seasonal sales trends.

Our overall profitability for any particular period may be adversely affected by changes in the mix of products, customers, and geographic markets reflected in our sales for that period, as well as by seasonal trends. Our profit margins vary among products, services, customers, and geographic markets. For instance, our services offerings generally have a higher profit margin than our consumer products. In addition, parts of our business are subject to seasonal sales trends. Among the trends with the most significant impact on our operating results, sales to government customers (particularly the U.S. federal government) are typically stronger in our third fiscal quarter, sales in EMEA are often weaker in our third fiscal quarter, and consumer sales are typically strongest during our fourth fiscal quarter.

Our financial performance could suffer from any reduced access to the capital markets by us or some of our customers.

We are increasingly dependent on access to debt and capital sources to provide financing for our customers and to obtain funds in the U.S. for general corporate purposes, including working capital, acquisitions, capital expenditures, funding of customer receivables, and share repurchases. In addition, we have customer financing relationships with some companies that rely on access to the capital markets to meet significant funding needs. Any inability of these companies to access such markets could compel us to self-fund transactions with them or forego customer financing opportunities, potentially harming our financial performance. The debt and capital markets may experience extreme

volatility and disruption from time to time in the future, resulting in higher credit spreads in the capital markets and higher funding costs for us. Deterioration in our business performance, a credit rating downgrade, volatility in the securitization markets, changes in financial services regulation or adverse changes in the economy could lead to

Table of Contents

reductions in debt availability and could limit our ability to continue asset securitizations or other financings from debt or capital sources, reduce the amount of financing receivables that we originate, or negatively affect the costs or terms on which we may be able to obtain capital. Any of these developments could unfavorably affect our net revenue, profitability, and cash flows.

Loss of government contracts could harm our business.

Contracts with the U.S. federal, state and local governments and foreign governments are subject to future funding that may affect the extension or termination of programs and are subject to the right of the government to terminate for convenience or non-appropriation. In addition, if we violate legal or regulatory requirements, the applicable government could suspend or disbar us as a contractor, which would unfavorably affect our net revenue and profitability.

We are subject to the risk of temporary suspension or debarment from contracting with U.S. federal, state and local governments as a result of settlements of an SEC investigation by our company and our Chairman and CEO.

As part of our settlements of the SEC investigation into certain disclosure, accounting and financial reporting matters, we and our Chairman and CEO consented, without admitting or denying the SEC's allegations, to a permanent injunction against future violations of certain provisions of the federal securities laws. The existence and terms of such injunctions may adversely affect our business under contracts with U.S. federal, state and local governments. The procurement regulations of federal governmental agencies and many state and local governments with which we do business generally vest those governments with broad discretion to suspend or debar companies from product and services contracts for periods of generally up to three years if the governments determine that companies do not prospectively qualify as currently responsible contracting parties. The various levels of government could also require us to operate under special reporting and other compliance measures, which could increase our costs of performance under the applicable contracts.

The exercise by customers of certain rights under our services contracts, or our failure to perform as we anticipate at the time we enter services contracts, could adversely affect our revenue and profitability.

Many of our services contracts allow the customer to take the following actions that may adversely affect our revenue and profitability:

Terminate the contract if our performance does not meet specified service levels

Look to a benchmarker's opinion of market rates in order to request a rate reduction or alternatively terminate the contract

Reduce the customer's use of our services and, as a result, reduce our fees

Terminate the contract early upon payment of an agreed fee

In addition, we estimate our costs to deliver the services at the outset of the contract. If we fail to estimate accurately, our actual costs may significantly exceed our estimates, even for a time and materials contract, and we may incur losses on the services contracts.

Our business could suffer if we do not develop and protect our own intellectual property or do not obtain or protect licenses to intellectual property developed by others on commercially reasonable and competitive

terms.

If we or our suppliers are unable to develop or protect desirable technology or technology licenses, we may be prevented from marketing products, could be forced to market products without desirable features, or could incur substantial costs to redesign products, defend or enforce legal actions, or pay damages. Although our suppliers might be contractually obligated to obtain or protect such licenses and indemnify us against related expenses, those suppliers could be unable to meet their obligations. Similarly, we invest in research and development and obtain additional intellectual property through acquisitions, but these activities do not guarantee that we will develop or obtain intellectual property necessary for profitable

Table of Contents

operations. Costs involved in developing and protecting rights in intellectual property may have a negative impact on our business. In addition, our operating costs could increase because of copyright levies or similar fees by rights holders and collection agencies in European and other countries.

Infrastructure disruptions or breaches of data security could harm our business.

We depend on our information technology and manufacturing infrastructure to achieve our business objectives. If a disruption impairs our infrastructure, such as one caused by a computer virus, natural disaster, manufacturing failure, telecommunications system failure, defective or improperly installed new or upgraded business management systems, or intentional tampering or data-breach by a third party, we may be unable to receive or process orders, manufacture and ship products in a timely manner, or otherwise conduct our business in the normal course. Moreover, portions of our services business involve the processing, storage, and transmission of data, which would also be negatively affected by such an event. A disruption could cause us to lose customers and revenue, particularly during a period of disproportionately heavy demand, and could result in the loss or unintentional disclosure of company or customer information and could damage our reputation. We also could incur significant expense in remediating these problems and in addressing related data security and privacy concerns.

Our performance could be adversely affected by our failure to hedge effectively our exposure to fluctuations in foreign currency exchange rates and interest rates.

We utilize derivative instruments to hedge our exposure to fluctuations in foreign currency exchange rates and interest rates. Some of these instruments and contracts may involve elements of market and credit risk in excess of the amounts recognized in our financial statements. If we are not successful in monitoring our foreign exchange exposures and conducting an effective hedging program, our foreign currency hedging activities may not offset the impact of fluctuations in currency exchange rates on our future results of operations and financial position.

We are subject to counterparty default risks.

We have numerous arrangements with financial institutions that include cash and investment deposits, interest rate swap contracts, foreign currency option contracts, and forward contracts. As a result, we are subject to the risk that the counterparty to one or more of these arrangements will default, either voluntarily or involuntarily, on its performance under the terms of the arrangement. In times of market distress, a counterparty may default rapidly and without notice to us, and we may be unable to take action to cover our exposure, either because we lack the contractual ability or because market conditions make it difficult to take effective action. If one of our counterparties becomes insolvent or files for bankruptcy, our ability eventually to recover any losses suffered as a result of that counterparty's default may be limited by the liquidity of the counterparty or the applicable legal regime governing the bankruptcy proceeding. In the event of such default, we could incur significant losses, which could harm our business, results of operations, and financial condition.

Unfavorable results of legal proceedings could harm our business and result in substantial costs.

We are involved in various claims, suits, investigations, and legal proceedings that arise from time to time in the ordinary course of our business, including those described elsewhere in this report. Additional legal claims or regulatory matters may arise in the future and could involve stockholder, consumer, government regulatory and compliance, intellectual property, antitrust, tax, and other issues on a global basis. Litigation is inherently unpredictable. Regardless of the merit of the claims, litigation may be both time-consuming and disruptive to our business. We could incur judgments or enter into settlements of claims that could adversely affect our operating results or cash flows in a particular period. In addition, our business, operating results, and financial condition could be adversely affected 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.

Table of Contents

The expiration of tax holidays or favorable tax rate structures, or unfavorable outcomes in tax audits and other tax compliance matters, could result in an increase in our current tax expense or our effective income tax rate in the future.

Portions of our operations are subject to a reduced tax rate or are free of tax under various tax holidays that expire in whole or in part from time to time. Many of these holidays may be extended when certain conditions are met, or terminated if certain conditions are not met. If the tax holidays are not extended, or if we fail to satisfy the conditions of the reduced tax rate, then our effective tax rate would increase in the future. Our effective tax rate could also increase if our geographic sales mix changes. We are under audit in various tax jurisdictions. An unfavorable outcome in certain of these matters could result in a substantial increase to our tax expense. In addition, changes in tax laws (including U.S. taxes on foreign operations) could adversely affect our operations and profitability.

Our success depends on our ability to attract, retain, and motivate our key employees.

We rely on key personnel, including our CEO and executive leadership team, to support anticipated continued rapid international growth and increasingly complex product and services offerings. We may not be able to attract, retain, and motivate the key professional, technical, marketing, and staff resources we need.

We face risks relating to any inability to maintain strong internal controls.

If management is not successful in maintaining a strong internal control environment, investors could lose confidence in our reported financial information. This could lead to a decline in our stock price, limit our ability to access the capital markets in the future, and require us to incur additional costs to improve our internal control systems and procedures.

Current environmental and safety laws, or laws enacted in the future, may harm our business.

Our operations are subject to environmental and safety regulation in all of the areas in which we conduct business. Our product design and procurement operations must comply with new and future requirements relating to climate change laws and regulations, materials composition, sourcing, energy efficiency and collection, recycling, treatment, transportation and disposal of our electronics products, including restrictions on mercury, lead, cadmium, lithium metal, lithium ion and other substances. If we fail to comply with applicable rules and regulations regarding the transportation, source, use and sale of such regulated substances, we could be subject to liability. The costs and timing of costs under environmental and safety laws are difficult to predict, but could have an unfavorable impact on our business.

Armed hostilities, terrorism, natural disasters, or public health issues could harm our business.

Armed hostilities, terrorism, natural disasters, or public health issues, whether in the U.S. or abroad, could cause damage or disruption to us, our suppliers or customers, or could create political or economic instability, any of which could harm our business. These events could cause a decrease in demand for our products, could make it difficult or impossible for us to deliver products or for our suppliers to deliver components, and could create delays and inefficiencies in our supply chain.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2 PROPERTIES

At January 28, 2011, we owned or leased a total of approximately 18.1 million square feet of office, manufacturing, and warehouse space worldwide, approximately 8.3 million square feet of which is located in the U.S. We owned approximately 62% of this space and leased the remaining 38%. Included in these amounts are approximately 2.1 million square feet that are either vacant or sublet.

Our principal executive offices, including global headquarters, are located at One Dell Way, Round Rock, Texas. Our business centers, which include facilities that contain operations for sales, technical support, administrative,

Table of Contents

and support functions, occupy 9.7 million square feet of space, of which we own 40%. We own 2.6 million square feet of manufacturing space. Our design centers are housed in 1.6 million square feet of space, of which we own 48%.

During Fiscal 2011, we closed a manufacturing plant in Winston-Salem, North Carolina, consolidated space on our Austin, Texas campus allowing us to close one building, and sold our fulfillment center in Nashville, Tennessee. Currently, a business center in Coimbatore, India and a data center in Washington are under construction.

We have announced the sale of our Lodz, Poland manufacturing facility. We may continue to sell, close, and consolidate additional facilities depending on a number of factors, including end-user demand and progress in our continuous evaluation of our overall cost structure. We believe that our existing properties are suitable and adequate for our current needs and that we can readily meet our requirements for additional space at competitive rates by extending expiring leases or by finding alternative space.

As discussed in Part I Item 1 Business, we have four operating segments identified as Large Enterprise, Public, SMB and Consumer. Because of the interrelation of the products and services offered in each of these segments, we do not designate our properties to any segment. All four segments use substantially all of the properties at least in part, and we retain the flexibility to make future use of each of the properties available to each of the segments.

ITEM 3 LEGAL PROCEEDINGS

The information required by this Item 3 is incorporated herein by reference to the information set forth under the caption Legal Matters in Note 11 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data and is incorporated herein by reference.

ITEM 4 (REMOVED AND RESERVED)

Table of Contents**PART II****ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market for Common Stock**

Our common stock is listed on the NASDAQ Global Select Market of The NASDAQ Stock Market LLC under the symbol DELL. Information regarding the high and low sales prices per share of our common stock for Fiscal 2011 and Fiscal 2010, as reported by the NASDAQ Global Select Market, is set forth below:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Stock sales price per share for the fiscal year ended January 28, 2011:				
High	\$ 17.52	\$ 16.46	\$ 14.89	\$ 14.70
Low	\$ 12.92	\$ 11.72	\$ 11.34	\$ 13.06
Stock sales price per share for the fiscal year ended January 29, 2010:				
High	\$ 12.05	\$ 14.24	\$ 17.26	\$ 16.10
Low	\$ 7.84	\$ 10.39	\$ 13.07	\$ 12.74

Holders

At March 4, 2011, there were 29,320 holders of record of Dell common stock.

Dividends

We have never declared or paid any cash dividends on shares of our common stock and currently do not anticipate paying any cash dividends in the immediate future. Any future determination to pay cash dividends will be at the discretion of our Board of Directors.

Purchases of Common Stock

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 in conjunction with share-based payment arrangements. The following table sets forth information regarding our repurchases or acquisitions of common stock during the fourth quarter of Fiscal 2011 and the remaining authorized amount of future purchases under our share repurchase program:

Total Number	Weighted Average	Total Number of Shares Purchased as Part of Publicly	Approximate Dollar Value of Shares that May Yet Be Purchased
-------------------------	-----------------------------	---	---

Period	of Shares Purchased^(a)	Price Paid per Share	Announced Plans or Programs^(b)	Under the Plans or Programs^(b)
(in millions, except average price paid per share)				
Repurchases from October 30, 2010 through November 26, 2010	4	\$ 13.74	4	\$ 3,884
Repurchases from November 27, 2010 through December 24, 2010	11	\$ 13.52	11	\$ 3,743
Repurchases from December 25, 2010 through January 28, 2011	-	\$ -	-	\$ 3,743
Total	15	\$ 13.58	15	

(a) All shares repurchased during the fourth quarter of Fiscal 2011 were purchased in open market transactions.

(b) On December 4, 2007, we publicly announced that our Board of Directors had authorized a share repurchase program for up to \$10 billion of our common stock over an unspecified amount of time.

Table of Contents**Stock Performance Graph**

The following graph compares the cumulative total return on Dell's common stock during the last five fiscal years with the S&P 500 Index and the Dow Jones US Computer Hardware Index during the same period. The graph shows the value, at the end of each of the last five fiscal years, of \$100 invested in Dell common stock or the indices on February 3, 2006, and assumes the reinvestment of all dividends. The graph depicts the change in the value of our common stock relative to the indices at the end of each fiscal year and not for any interim period. Historical stock price performance is not necessarily indicative of future stock price performance.

	2006	2007	2008	2009	2010	2011
Dell Inc.	\$ 100.00	\$ 80.38	\$ 69.55	\$ 32.47	\$ 44.09	\$ 44.94
S&P 500	\$ 100.00	\$ 114.51	\$ 111.87	\$ 68.66	\$ 91.41	\$ 111.69
Dow Jones US Computer Hardware	\$ 100.00	\$ 114.49	\$ 119.24	\$ 77.73	\$ 133.10	\$ 188.56

Table of Contents**ITEM 6 SELECTED FINANCIAL DATA**

The following selected financial data should be read in conjunction with Part II Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and Part II Item 8 Financial Statements and Supplementary Data and are derived from our audited consolidated financial statements included in Part II Item 8 Financial Statements and Supplementary Data or in our previously filed Annual Reports on Form 10-K.

	Fiscal Year Ended				
	January 28, 2011	January 29, 2010	January 30, 2009	February 1, 2008	February 2, 2007
	(in millions, except per share data)				
Results of Operations:					
Net revenue	\$ 61,494	\$ 52,902	\$ 61,101	\$ 61,133	\$ 57,420
Gross margin	\$ 11,396	\$ 9,261	\$ 10,957	\$ 11,671	\$ 9,516
Operating income	\$ 3,433	\$ 2,172	\$ 3,190	\$ 3,440	\$ 3,070
Income before income taxes	\$ 3,350	\$ 2,024	\$ 3,324	\$ 3,827	\$ 3,345
Net income	\$ 2,635	\$ 1,433	\$ 2,478	\$ 2,947	\$ 2,583
Earnings per share:					
Basic	\$ 1.36	\$ 0.73	\$ 1.25	\$ 1.33	\$ 1.15
Diluted	\$ 1.35	\$ 0.73	\$ 1.25	\$ 1.31	\$ 1.14
Number of weighted-average shares outstanding:					
Basic	1,944	1,954	1,980	2,223	2,255
Diluted	1,955	1,962	1,986	2,247	2,271
Cash Flow & Balance Sheet Data:					
Net cash provided by operating activities	\$ 3,969	\$ 3,906	\$ 1,894	\$ 3,949	\$ 3,969
Cash, cash equivalents and investments	\$ 15,069	\$ 11,789	\$ 9,546	\$ 9,532	\$ 12,445
Total assets	\$ 38,599	\$ 33,652	\$ 26,500	\$ 27,561	\$ 25,635
Short-term borrowings	\$ 851	\$ 663	\$ 113	\$ 225	\$ 188
Long-term debt	\$ 5,146	\$ 3,417	\$ 1,898	\$ 362	\$ 569
Total stockholders' equity	\$ 7,766	\$ 5,641	\$ 4,271	\$ 3,735	\$ 4,328

Table of Contents

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

This section should be read in conjunction with Part II Item 8 Financial Statements and Supplementary Data.

OVERVIEW

We are a leading integrated technology solutions provider in the IT industry. We built our reputation through listening to customers and developing solutions that meet customer needs. We are focused on providing long-term value creation through the delivery of customized solutions that make technology more efficient, more accessible, and easier to use. Customer needs are increasingly being defined by how they use technology rather than where they use it, which is why our businesses are globally organized. Our four global business segments are Large Enterprise, Public, Small and Medium Business (SMB), and Consumer. We also refer to our Large Enterprise, Public, and SMB segments as Commercial. Our globally organized business units reflect the impact of globalization on our customer base.

A key component of our business strategy is to continue shifting our portfolio to products and services that provide higher-margin and recurring revenue streams over time. As part of this strategy, we emphasize expansion of our enterprise solutions and services. We group our services with similar demand, economic and delivery profiles into three categories: transactional; outsourcing; and project-based. Our enterprise products include servers, networking, and storage products. The growth of our enterprise solutions and services business has contributed to improvements in our operating margins.

We are focusing on product leadership by developing next generation capabilities for client products, which include our mobility and desktop PC products. We employ a collaborative approach to product design and development in which our engineers, with direct customer input, design innovative solutions and work with a global network of technology companies to architect new system designs, influence the direction of future development, and integrate new technologies into our products. Through this collaborative, customer-focused approach, we strive to deliver new and relevant products and services to the market quickly and efficiently. We have also been focusing on improving the profitability of our client products by improving our supply chain execution and simplifying our product offerings. The majority of our products are now produced by contract manufacturers.

All regions of our global business experienced revenue increases in Fiscal 2011. Emerging countries with a vast majority of the world's population represent some of our most attractive growth markets. In recent years, we have increased our investment in Brazil, Russia, India, and China and have tailored our products and services to meet the specific needs of customers in these countries.

We supplement organic growth with a disciplined acquisition program targeting businesses that will expand our portfolio of enterprise solutions offerings. We emphasize acquisitions of companies with portfolios that we can leverage with our global customer base and distribution. We followed our acquisition of Perot Systems Corporation (Perot Systems) in late Fiscal 2010 with a number of acquisitions throughout Fiscal 2011, which extended our core capabilities in a variety of enterprise solutions offerings, including storage, systems management appliances, virtual infrastructure management, SaaS application integration, and cloud-based medical records management. The comparability of our results of operations for Fiscal 2011 compared to Fiscal 2010 and Fiscal 2009 are affected by these acquisitions, primarily our acquisition and ongoing integration of Perot Systems. See our Services discussion under Results of Operations Revenue by Product and Services Categories below for a comparison of Dell's Services

revenue for Fiscal 2011 compared to the prior years' results of Dell Services and Perot Systems.

Presentation of Supplemental Non-GAAP Financial Measures

In this management's discussion and analysis, we use supplemental measures of our performance, which are derived from our consolidated financial information but which are not presented in our consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These financial measures, which are considered "non-GAAP financial measures" under SEC rules, include our non-GAAP gross margin, non-GAAP operating expenses, non-GAAP operating income, non-GAAP net income and non-GAAP earnings per share. See "Results of Operations" Non-GAAP Financial Measures

Table of Contents

below for information about our use of these non-GAAP financial measures, including our reasons for including the measures, material limitations with respect to the usefulness of the measures, and a reconciliation of each non-GAAP financial measure to the most directly comparable GAAP financial measure.

RESULTS OF OPERATIONS**Consolidated Operations**

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

	January 28, 2011			Fiscal Year Ended January 29, 2010			January 30, 2009	
	Dollars	% of Revenue	% Change	Dollars	% of Revenue	% Change	Dollars	% of Revenue
	(in millions, except per share amounts and percentages)							
<i>Net revenue:</i>								
Product	\$ 50,002	81.3%	14%	\$ 43,697	82.6%	(17%)	\$ 52,337	85.7%
Services, including software related	11,492	18.7%	25%	9,205	17.4%	5%	8,764	14.3%
Total net revenue	\$ 61,494	100.0%	16%	\$ 52,902	100%	(13%)	\$ 61,101	100%
<i>Gross margin:</i>								
Product	\$ 7,934	15.9%	29%	\$ 6,163	14.1%	(20%)	\$ 7,667	14.6%
Services, including software related	3,462	30.1%	12%	3,098	33.7%	(6%)	3,290	37.5%
Total gross margin	\$ 11,396	18.5%	23%	\$ 9,261	17.5%	(15%)	\$ 10,957	17.9%
Operating expenses	\$ 7,963	12.9%	12%	\$ 7,089	13.4%	(9%)	\$ 7,767	12.7%
Operating income	\$ 3,433	5.6%	58%	\$ 2,172	4.1%	(32%)	\$ 3,190	5.2%
Net income	\$ 2,635	4.3%	84%	\$ 1,433	2.7%	(42%)	\$ 2,478	4.1%
Earnings per share diluted	\$ 1.35	N/A	85%	\$ 0.73	N/A	(42%)	\$ 1.25	N/A
<i>Other Financial Information^(a)</i>								
Non-GAAP gross margin	\$ 11,731	19.1%	22%	\$ 9,649	18.2%	(14%)	\$ 11,178	18.3%
Non-GAAP operating expenses	\$ 7,582	12.3%	14%	\$ 6,675	12.6%	(11%)	\$ 7,497	12.3%
Non-GAAP operating income	\$ 4,149	6.7%	40%	\$ 2,974	5.6%	(19%)	\$ 3,681	6.0%
Non-GAAP net income	\$ 3,106	5.1%	51%	\$ 2,054	3.9%	(28%)	\$ 2,852	4.7%
Non-GAAP earnings per share diluted	\$ 1.59	N/A	51%	\$ 1.05	N/A	(27%)	\$ 1.44	N/A

(a)

Non-GAAP gross margin, non-GAAP operating expenses, non-GAAP operating income, non-GAAP net income, and non-GAAP earnings per share are not measurements of financial performance prepared in accordance with GAAP. See Non-GAAP Financial Measures below for information about these non-GAAP financial measures, including our reasons for including the measures, material limitations with respect to the usefulness of the measures, and a reconciliation of each non-GAAP financial measure to the most directly comparable GAAP financial measure.

During Fiscal 2011, our total net revenue increased 16% year-over-year with increases across all our Commercial segments, and a slight increase in our Consumer segment. Commercial segments increased 20% year-over-year, and represented approximately 80% of our total net revenue during Fiscal 2011. The recovery in the economy during Fiscal 2011 helped strengthen demand from our Commercial customers as the corporate refresh cycle continued, particularly for our Large Enterprise and SMB customers. Demand from our Consumer customers softened during late Fiscal 2011 compared to late Fiscal 2010 when the launch of Windows 7 increased demand for our Consumer client products.

Our profitability has been improving sequentially for the past four quarters, with stronger results in the latter half of Fiscal 2011. The improving profitability was in part due to growth in our enterprise solutions and services business. For Fiscal 2011, enterprise solutions and services revenue, including the contribution from Perot Systems, grew 27% year-over-year to \$17.6 billion, and gross margins generated from this category grew 24% year-over-year. We believe these solutions are customized to the needs of users, easy to use, and affordable. We have also improved profitability in our client product business by simplifying our product offerings, optimizing our supply chain, and improving pricing discipline during this period of favorable component cost environment. We will remain focused on profitability by continuing our efforts to provide IT solutions to our customers in areas such as enterprise solutions and services, and will continue to utilize our flexible supply chain to enhance the profitability of our client products.

Table of Contents

Revenue

Fiscal 2011 compared to Fiscal 2010

Product Revenue Product revenue increased year-over-year by 14% for Fiscal 2011. Our product revenue performance was primarily attributable to improved customer demand as a result of increased global IT spending from our Commercial customers across all product categories as well as a shift in mix to higher priced products. See Revenue by Product and Services Categories for further information regarding the average selling prices of our products.

Services Revenue, including software related Services revenue, including software related increased year-over-year by 25% for Fiscal 2011. Our services revenue performance was attributable to a 36% year-over-year increase in services revenue and an increase of 7% in software related services revenue during Fiscal 2011. The increase in services revenue was primarily due to our acquisition of Perot Systems in the fourth quarter of Fiscal 2010, which was integrated into our Public and Large Enterprise segments.

During Fiscal 2011, revenue from the U.S. increased 14% to \$31.9 billion and represented 52% of total net revenue. Revenue from outside the U.S. increased 19% to \$29.6 billion and represented 48% of total net revenue. Revenue from Brazil, Russia, India, and China, which we refer to as BRIC, increased 38% year-over-year, on a combined basis, for Fiscal 2011. Total revenue from BRIC has been increasing sequentially since the fourth quarter of Fiscal 2009 and represented 12.3% of our total net revenue for Fiscal 2011 compared to 10.5% in the prior year. We are continuing to expand into these and other emerging countries that represent the vast majority of the world's population, tailor solutions to meet specific regional needs, and enhance relationships to provide customer choice and flexibility.

We manage our business on a U.S. dollar basis and utilize a comprehensive hedging strategy intended to mitigate the impact of foreign currency volatility over time. As a result of our hedging programs, the impact of currency movements was not material to our total net revenue for Fiscal 2011, Fiscal 2010, or Fiscal 2009.

Fiscal 2010 compared to Fiscal 2009

Product Revenue Product revenue and unit shipments decreased year-over-year by 17% and 6%, respectively, for Fiscal 2010. Our product revenue performance was primarily attributable to a decrease in customer demand from our Commercial segments and lower average selling prices in our Consumer segment.

Services Revenue, including software related Services revenue, including software related increased year-over-year by 5% during Fiscal 2010. The increase in services revenue was largely due to our acquisition of Perot Systems, which contributed \$588 million in services revenue during the fourth quarter of Fiscal 2010. Excluding the contribution by Perot Systems, services revenue decreased 2%. Our service offerings have traditionally been tied to the sale of hardware; therefore, the 6% decline in hardware demand negatively impacted our services revenue.

Outside the U.S., we experienced a 16% year-over-year revenue decline for Fiscal 2010 compared to an approximate decline of 11% in revenue for the U.S. during the same period. Revenue outside the U.S. represented approximately 47% of net revenue for Fiscal 2010. At a consolidated level, BRIC revenue increased 4% during Fiscal 2010.

Gross Margin

Fiscal 2011 compared to Fiscal 2010

Products During Fiscal 2011, product gross margins increased in absolute dollars year-over-year and in gross margin percentage. Product gross margin percentage increased from 14.1% for Fiscal 2010 to 15.9% for Fiscal 2011. Decreasing component costs, improved pricing discipline, better sales and supply chain execution, and improved quality resulting in favorable warranty experience contributed to the year-over-year increase in product gross margin percentage. We have created a flexible supply chain that has improved our supply chain execution and have simplified our product offerings. Additionally, in the second half of Fiscal 2011, we began to

Table of Contents

benefit from decreasing component costs, particularly for memory and displays. We expect this favorable component cost environment will moderate in the first half of Fiscal 2012.

Services, including software related During Fiscal 2011, our services gross margin increased in absolute dollars compared to the prior fiscal year, although our gross margin percentage decreased. The decrease in gross margin percentage for services, including software related was primarily due to a higher mix of outsourcing and project-related services. Our gross margin rate for services, including software related, is driven by our transactional services, which consist primarily of our extended warranty sales, offset by lower margin categories such as outsourcing and project-related services. Our extended warranty services are more profitable because we sell extended warranty offerings directly to customers rather than through a distribution channel.

Total gross margin for Fiscal 2011 increased 23% to \$11.4 billion on a GAAP basis and 22% to \$11.7 billion on a non-GAAP basis from Fiscal 2010. Gross margin on a GAAP basis for Fiscal 2011 and Fiscal 2010 includes the effects of amortization of intangible assets, severance and facility action costs, and acquisition-related charges. As set forth in the reconciliation under Non-GAAP Financial Measures below, these items are excluded from the calculation of non-GAAP gross margin for Fiscal 2011 and Fiscal 2010. Amortization of intangible assets included in gross margin increased 84% to \$278 million for Fiscal 2011. The increase in amortization of intangibles for Fiscal 2011 was primarily due to an increase in intangible assets of \$1.2 billion in Fiscal 2010 related to our acquisition of Perot Systems. Severance and facility action costs included in gross margin decreased 78% to \$53 million during Fiscal 2011. The decrease in severance and facility action costs was due to a decrease in cost reduction activities from Fiscal 2010. While we believe that we have completed a significant portion of our manufacturing transformation, we expect to implement additional cost reduction measures depending on a number of factors, including end-user demand for our products and services and the continued simplification of our sales organizations and supply and logistics chain. Additional cost reduction measures may include selected headcount reductions, as well as other cost reduction programs.

Fiscal 2010 compared to Fiscal 2009

Products Product gross margin decreased in absolute dollars and in gross margin percentage during Fiscal 2010. The decline in gross margin dollars was attributable to softer demand, change in sales mix, and lower average selling prices. Additionally, during Fiscal 2010, gross margins were negatively impacted by component cost pressures.

Services, including software related During Fiscal 2010, our services gross margin decreased in absolute dollars compared to the prior fiscal year with a corresponding decrease in gross margin percentage. Our solution services offerings faced competitive pricing pressures, resulting in lower gross margin percentages.

Total gross margin for Fiscal 2010 decreased 15% to \$9.3 billion on a GAAP basis and 14% to \$9.6 billion on a non-GAAP basis from Fiscal 2009. Gross margin on a GAAP basis for Fiscal 2010 includes the effects of severance and facility action costs, amortization of intangible assets, and acquisition-related charges. Gross margin on a GAAP basis for Fiscal 2009 includes the effects of severance and facility action costs, amortization of intangible assets, and stock option accelerated vesting charges. As set forth in the reconciliation under Non-GAAP Financial Measures below, these items are excluded from the calculation of non-GAAP gross margin for Fiscal 2010 and Fiscal 2009. Amortization of intangible assets included in gross margin increased 156% to \$151 million for Fiscal 2010. The increase in amortization of intangibles for Fiscal 2010 was primarily due to an increase in intangible assets from our acquisition of Perot Systems in Fiscal 2010 discussed above. Severance and facility action costs included in gross margin increased 62% to \$236 million during Fiscal 2010 due to our migration to contract manufacturers and closures of certain manufacturing facilities. For Fiscal 2009, we incurred \$104 million in certain stock-based compensation charges related to accelerated options that had an exercise price greater than the current market stock price. Included

in gross margin on a GAAP basis is \$16 million from these stock option accelerated vesting charges, which are excluded from the calculation of our non-GAAP gross margin. We did not have any accelerated stock option expenses in Fiscal 2010.

Table of Contents*Vendor Rebate Programs*

Our gross margin is affected by our ability to achieve competitive pricing with our vendors and contract manufacturers, including through our negotiation of a variety of vendor rebate programs to achieve lower net costs for the various components we include in our products. Under these programs, vendors provide us with rebates or other discounts from the list prices for the components, which are generally elements of their pricing strategy. Vendor rebate programs are only one element of the costs we negotiate for our product components. We account for rebates and other discounts as a reduction in cost of net revenue. Our total net cost includes supplier list prices reduced by vendor rebates and other discounts. We manage our costs on a total net cost basis.

The terms and conditions of our vendor rebate programs are largely based on product volumes and are generally not long-term in nature, but instead are typically negotiated at the beginning of each quarter. Because of the fluid nature of these ongoing negotiations, which reflect changes in the competitive environment, the timing and amount of rebates and other discounts we receive under the programs may vary from period to period. Since we manage our component costs on a total net cost basis, any fluctuations in the timing and amount of rebates and other discounts we receive from vendors may not necessarily result in material changes to our gross margin. We monitor our component costs and seek to address the effects of any changes to terms that might arise under our vendor rebate programs. Our gross margins for Fiscal 2011, Fiscal 2010, and Fiscal 2009, were not materially affected by any changes to the terms of our vendor rebate programs, as the amounts we received under these programs were generally stable relative to our total net cost. We are not aware of any significant programmatic changes to vendor pricing and rebate programs that will impact our results in the near term.

We will continue to invest in initiatives that align our new and existing products and services with customers' needs, particularly for enterprise products and solutions. As we shift our focus more to enterprise solutions and services, we believe the improved mix of higher margin sales will positively impact our gross margins over time.

Operating Expenses

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

	January 28, 2011			Fiscal Year Ended January 29, 2010			January 30, 2009	
	Dollars	% of Revenue	% Change	Dollars	% of Revenue	% Change	Dollars	% of Revenue
(in millions, except percentages)								
<i>Operating expenses:</i>								
Selling, general, and administrative	\$ 7,302	11.9%	13%	\$ 6,465	12.2%	(9%)	\$ 7,102	11.6%
Research, development, and engineering	661	1.0%	6%	624	1.2%	(6%)	665	1.1%
Total operating expenses	\$ 7,963	12.9%	12%	\$ 7,089	13.4%	(9%)	\$ 7,767	12.7%
<i>Other Financial Information</i>								
	\$ 7,582	12.3%	14%	\$ 6,675	12.6%	(11%)	\$ 7,497	12.3%

Non-GAAP
operating expenses^(a)

- (a) For a reconciliation of non-GAAP operating expenses to operating expenses prepared in accordance with GAAP, see Non-GAAP Financial Measures below.

Fiscal 2011 compared to Fiscal 2010

Selling, General, and Administrative During Fiscal 2011, selling, general, and administrative (SG&A) expenses increased year-over-year, while SG&A expenses as a percentage of net revenue decreased. The increase in SG&A expenses was primarily attributable to increases in compensation-related expenses and advertising and promotional expenses. Compensation-related expenses, excluding severance-related expenses, increased approximately \$679 million due to an increase in performance-based compensation expense, which is tied to revenue and operating income growth, and cash flow targets, and an increase in headcount. Our headcount increased approximately 6% due to our acquisitions and new hires relating to our strategic initiatives. We also experienced a year-over-year increase of \$111 million in advertising and promotional expenses. These increases were offset in part by decreases in severance and facility action costs and acquisition-related expenses discussed below.

Table of Contents

Research, Development, and Engineering During Fiscal 2011, research, development, and engineering (RD&E) expenses remained at approximately 1% of revenue, consistent with the prior fiscal year. We manage our research, development, and engineering spending by targeting those innovations and products that we believe are most valuable to our customers and by relying upon the capabilities of our strategic relationships. We will continue to invest in RD&E activities to support our growth and to provide for new, competitive products.

Total operating expenses for Fiscal 2011 increased 12% to \$8.0 billion on a GAAP basis and 14% to \$7.6 billion on a non-GAAP basis for Fiscal 2011 over Fiscal 2010. Operating expenses on a GAAP basis for Fiscal 2011 and Fiscal 2010 includes severance and facility charges, amortization of intangible assets, and acquisition-related charges. For Fiscal 2011, operating expenses on a GAAP basis also includes \$100 million we incurred for our settlement of the SEC investigation and a \$40 million charge for a securities litigation class action lawsuit that was filed against Dell during Fiscal 2007. See Part II Item 9A Controls and Procedures for further discussion of our settlement of the SEC investigation. As set forth in the reconciliation under Non-GAAP Financial Measures below, non-GAAP operating expenses for Fiscal 2011 and for Fiscal 2010 excludes the effects of these severance and facility action costs, amortization of intangible assets, and acquisition-related charges, and, for Fiscal 2011, the settlements referred to above. Severance and facility action costs included in operating expenses decreased year-over-year by 69% to \$76 million for Fiscal 2011. Amortization of intangibles and acquisition-related charges included in operating expenses increased 31% to \$71 million and decreased 18% to \$94 million over Fiscal 2010, respectively, and were primarily related to our acquisition of Perot Systems in Fiscal 2010 as well as our Fiscal 2011 acquisitions.

We expect integration costs related to our acquisitions, primarily of Perot Systems, to continue over the next fiscal years. In addition, we will continue to review our costs across all processes and organizations with the goals of reducing complexity and eliminating redundancies. While we have made significant progress in the transformation of our manufacturing and logistics areas, we expect to take further actions to reduce costs while investing in strategic growth areas.

Fiscal 2010 compared to Fiscal 2009

Selling, General, and Administrative For Fiscal 2010, SG&A expenses decreased compared to Fiscal 2009 primarily due to decreases in compensation, advertising expenses, and improved general spending controls. Compensation and benefits expense, excluding expenses related to headcount reductions, decreased approximately \$300 million in Fiscal 2010 compared to Fiscal 2009. With the increase in retail volumes, which typically incur less advertising costs, advertising expenses decreased approximately \$200 million year-over-year from Fiscal 2009. Due to company-wide spending control measures, there were large decreases in most other categories of expenses, including travel, maintenance, telecommunications, utilities, training, and recruiting, resulting in savings of over \$340 million. These decreases were partially offset by an increase in accounts receivable bad debt of \$40 million resulting from the challenging business environment during Fiscal 2010.

Research, Development, and Engineering For Fiscal 2010, RD&E expenses remained at approximately 1% of revenue, consistent with prior years.

Total operating expenses for Fiscal 2010 decreased 9% to \$7.1 billion on a GAAP basis and 11% to \$6.7 billion on a non-GAAP basis from Fiscal 2009. Operating expenses on a GAAP basis for Fiscal 2010 includes the effects of severance and facility action costs, acquisition-related charges, and amortization of intangible assets. For Fiscal 2009, operating expenses on a GAAP basis includes the effects of severance and facility action costs, amortization of intangible assets, and stock option accelerated vesting charges. As set forth in the reconciliation under Non-GAAP Financial Measures below, these charges are excluded from operating expenses on a non-GAAP basis. Severance and facility action costs included in operating expenses increased 80% to \$245 million in Fiscal 2010.

Acquisition-related charges and amortization of intangibles included in operating expenses increased from \$0 to \$115 million for Fiscal 2010 and 17% to \$54 million for Fiscal 2010. Operating expenses for amortization of intangible assets and acquisition-related costs were primarily related to our acquisition of Perot Systems in Fiscal 2010. Non-GAAP operating expenses for Fiscal 2009 excluded \$88 million in stock option accelerated vesting charges.

Table of Contents

Operating and Net Income

Fiscal 2011 compared to Fiscal 2010

Operating Income During Fiscal 2011, operating income increased 58% to \$3.4 billion on a GAAP basis and 40% to \$4.1 billion on a non-GAAP basis from Fiscal 2010. The increases were primarily attributable to increased revenue, improved gross margins, and better operating leverage resulting from the increase in net revenue. For Fiscal 2011, operating expenses increased 12% on a GAAP basis and 14% on a non-GAAP basis, while operating expenses as a percentage of revenue decreased slightly.

Net Income During Fiscal 2011, net income increased 84% to \$2.6 billion on a GAAP basis and 51% to \$3.1 billion on a non-GAAP basis from Fiscal 2010. Net income was positively impacted by increases in operating income and a lower effective income tax rate. In addition, on a GAAP basis, Interest and Other, net increased favorably by 44% for Fiscal 2011 due primarily to a \$72 million merger termination fee we received during the third quarter of Fiscal 2011. See **Income and Other Taxes** and **Interest and Other, net** below for discussion of our effective tax rates and interest and other, net.

Fiscal 2010 compared to Fiscal 2009

Operating Income During Fiscal 2010, operating income decreased 32% to \$2.2 billion on a GAAP basis and 19% to \$3.0 billion on a non-GAAP basis from Fiscal 2009. The decreases in operating income were primarily attributable to a year-over-year revenue decline of 13% and a year-over-year decline in gross margin dollars on both a GAAP and non-GAAP basis. A year-over-year reduction in operating expenses on a GAAP and non-GAAP basis during Fiscal 2010 favorably impacted operating income, while operating expenses as a percentage of revenue increased slightly during the same periods.

Net Income Net income for Fiscal 2010 decreased by 42% to \$1.4 billion on a GAAP basis and 28% to \$2.1 billion on a non-GAAP basis from Fiscal 2009. Net income was impacted by significant declines in operating income and an unfavorable change in interest and other, net in Fiscal 2010 compared to Fiscal 2009. During Fiscal 2010 as compared to Fiscal 2009, our net income on a GAAP basis was negatively impacted by an increase in our effective income tax rate to 29.2% from 25.4%. See **Income and Other Taxes** and **Interest and Other, net** below for discussion of our effective tax rates and interest and other, net.

Non-GAAP Financial Measures

We use non-GAAP financial measures in this Report as performance measures to supplement the financial information we present on a GAAP basis. We believe that excluding certain items from our GAAP results allows our management and investors to better understand our consolidated financial performance from period to period and in relationship to the operating results of our segments, as our management does not believe that the excluded items are reflective of our underlying operating performance. We also believe that excluding certain items from our GAAP results allows our management to better project our future consolidated financial performance because our forecasts are developed at a level of detail different from that used to prepare GAAP-based financial measures. Moreover, we believe the non-GAAP financial measures provide investors with useful information to help them evaluate our operating results by facilitating an enhanced understanding of our underlying operating performance and enabling them to make more meaningful period to period comparisons.

The non-GAAP financial measures presented in this Report include non-GAAP gross margin, non-GAAP operating expenses, non-GAAP operating income, non-GAAP net income and non-GAAP earnings per share. These non-GAAP financial measures, as defined by us, represent the comparable GAAP financial measures adjusted to exclude

primarily the following items: acquisition-related charges; amortization of purchased intangible assets related to acquisitions; severance and facility action costs; accelerated stock option expenses that were incurred in Fiscal 2009, a merger termination fee that was received during the third quarter of Fiscal 2011; and amounts for the settlement of the SEC investigation, as well as the settlement of a securities litigation matter, which were incurred during the first quarter of Fiscal 2011. We provide below more detail regarding each of these items and our reasons for excluding the items. In future periods, we expect that we may again exclude such items and may incur income and expenses similar to these excluded items. Accordingly, the exclusion of these items and other similar items in our non-GAAP presentation should not be interpreted as implying that the items are non-recurring, infrequent, or unusual.

Table of Contents

There are limitations to the use of the non-GAAP financial measures presented in this Report. Our non-GAAP financial measures may not be comparable to similarly titled measures of other companies. Other companies, including companies in our industry, may calculate the non-GAAP financial measures differently than we do, limiting the usefulness of those measures for comparative purposes. In addition, items such as amortization of purchased intangible assets represent the loss in value of intangible assets over time. The expense associated with this loss in value is not included in the non-GAAP financial measures and such measures, therefore, do not reflect the full economic effect of such loss. Further, items such as severance and facility action costs and acquisition expenses that are excluded from the non-GAAP financial measures can have a material impact on earnings. Our management compensates for the foregoing limitations by relying primarily on our GAAP results and using non-GAAP financial measures only supplementally or for projections when comparable GAAP financial measures are not available. The non-GAAP financial measures are not meant to be considered as indicators of performance in isolation from or as a substitute for gross margin, operating expenses, operating income, net income, and earnings per share prepared in accordance with GAAP, and should be read only in conjunction with financial information presented on a GAAP basis. We provide below reconciliations of each non-GAAP financial measure to its most directly comparable GAAP financial measure, and encourage you to review the reconciliations in conjunction with the presentation of the non-GAAP financial measures for each of the past three fiscal years.

The following is a summary of the costs and other items excluded from the most comparable GAAP financial measures to calculate the non-GAAP financial measures presented in this management's discussion and analysis:

Acquisition-related Costs Acquisition-related charges are expensed as incurred and consist primarily of retention payments, integration costs, bankers' fees, legal fees, and consulting fees. Retention payments include stock-based compensation and cash incentives awarded to employees, which are recognized over the vesting period. Integration costs include incremental business costs that are directly attributable to the acquisition of Perot Systems during the fourth quarter of Fiscal 2010 and are being incurred during the integration period. These costs primarily include IT costs related to the integration of IT systems and processes, costs related to the integration of Perot Systems employees, costs related to full-time employees who are working on the integration, and consulting expenses. Acquisition-related charges are inconsistent in amount and are significantly impacted by the timing and nature of acquisitions. Therefore, although we may incur these types of expenses in connection with future acquisitions, we believe eliminating acquisition-related charges for purposes of calculating the non-GAAP financial measures facilitates a more meaningful evaluation of our current operating performance and comparisons to our past operating performance.

Amortization of Intangible Assets Amortization of purchased intangible assets consists primarily of amortization of customer relationships, customer lists, acquired technology, trade names, and non-compete covenants purchased in connection with business acquisitions. We incur charges relating to the amortization of these intangibles, and those charges are included in our consolidated financial statements. Amortization charges for our purchased intangible assets are inconsistent in amount from period to period and are significantly impacted by the timing and magnitude of our acquisitions. Consequently, we exclude these charges for purposes of calculating the non-GAAP financial measures to facilitate a more meaningful evaluation of our current operating performance and comparisons to our past operating performance.

Severance and Facility Actions Severance and facility action costs primarily relate to facilities charges, including accelerated depreciation and severance and benefits for employees terminated pursuant to actions taken as part of a comprehensive review of costs, including certain employee cost synergies realized through our strategic acquisitions. While we expect to continue to incur severance and facility costs with any new cost reduction activities, we exclude these severance and facility action costs for purposes of calculating the non-GAAP financial measures because we believe that these historical costs do not reflect expected future operating expenses and do not contribute to a meaningful evaluation of our current operating performance or comparisons to our past

operating performance. See Note 10 of the Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data for additional information on severance and facility action costs.

Other Fees and Settlements We also adjust our GAAP results for certain fees and settlements. During Fiscal 2011, we received a \$72 million fee in connection with the termination of a merger agreement. We also recorded

Table of Contents

a \$100 million settlement amount for the SEC investigation into certain of Dell's accounting and financial matters, which was initiated in 2005, and incurred \$40 million for a securities litigation class action lawsuit that was filed against us during Fiscal 2007. We are excluding these fees and settlements from the operating results of Fiscal 2011 for the purpose of calculating the non-GAAP financial measures because we believe these fees and settlements, while not unusual, are outside our ordinary course of business and do not contribute to a meaningful evaluation of our current operating performance.

Stock Option Accelerated Vesting Charges Certain stock-based compensation charges incurred during Fiscal 2009 related to the accelerated vesting of unvested out-of-the-money stock options (options that have an exercise price greater than the current market stock price) are excluded from the non-GAAP financial measures. Stock-based compensation costs unrelated to the accelerated vesting of out-of-the-money stock options are not excluded from the non-GAAP financial measures. We exclude charges related to the accelerated vesting of out-of-the-money stock options because we believe they do not contribute to a meaningful comparison of our past operating results to our current operating results.

The aggregate adjustment for income taxes is the estimated combined income tax effect for the adjustments mentioned above. The tax effects are determined based on the jurisdictions where the adjustments were incurred.

Table of Contents

The table below presents a reconciliation of our non-GAAP financial measures to the most comparable GAAP measure for each of the past three fiscal years:

	January 28,	%	Fiscal Year Ended January 29,	%	January 30,
	2011	Change	2010	Change	2009
	(in millions, except percentages)				
GAAP gross margin	\$ 11,396	23%	\$ 9,261	(15%)	\$ 10,957
Non-GAAP adjustments:					
Amortization of intangibles	278		151		59
Severance and facility actions	53		236		146
Acquisition-related	4		1		-
Stock-option accelerated vesting charges	-		-		16
Non-GAAP gross margin	\$ 11,731	22%	\$ 9,649	(14%)	\$ 11,178
GAAP operating expenses	\$ 7,963	12%	\$ 7,089	(9%)	\$ 7,767
Non-GAAP adjustments:					
Amortization of intangibles	(71)		(54)		(46)
Severance and facility actions	(76)		(245)		(136)
Acquisition-related	(94)		(115)		-
Stock-option accelerated vesting charges	-		-		(88)
Other fees and settlements	(140)		-		-
Non-GAAP operating expenses	\$ 7,582	14%	\$ 6,675	(11%)	\$ 7,497
GAAP operating income	\$ 3,433	58%	\$ 2,172	(32%)	\$ 3,190
Non-GAAP adjustments:					
Amortization of intangibles	349		205		105
Severance and facility actions	129		481		282
Acquisition-related	98		116		-
Stock-option accelerated vesting charges	-		-		104
Other fees and settlements	140		-		-
Non-GAAP operating income	\$ 4,149	40%	\$ 2,974	(19%)	\$ 3,681
GAAP net income	\$ 2,635	84%	\$ 1,433	(42%)	\$ 2,478
Non-GAAP adjustments:					
Amortization of intangibles	349		205		105

Edgar Filing: DELL INC - Form 10-K

Severance and facility actions	129	481	282
Acquisition-related	98	116	-
Stock-option accelerated vesting charges	-	-	104
Other fees and settlements	68	-	-
Aggregate adjustments for income taxes	(173)	(181)	(117)

Non-GAAP net income	\$ 3,106	51%	\$ 2,054	(28%)	\$ 2,852
---------------------	----------	-----	----------	-------	----------

GAAP earnings per share diluted	\$ 1.35	85%	\$ 0.73	(42%)	\$ 1.25
Non-GAAP adjustments per share diluted	0.24		0.32		0.19

Non-GAAP earnings per share diluted	\$ 1.59	51%	\$ 1.05	(27%)	\$ 1.44
-------------------------------------	---------	-----	---------	-------	---------

Table of Contents

	Fiscal Year Ended		
	January 28, 2011	January 29, 2010	January 30, 2009
<i>Percentage of Total Net Revenue</i>			
GAAP gross margin	18.5%	17.5%	17.9%
Non-GAAP adjustments	0.6%	0.7%	0.4%
Non-GAAP gross margin	19.1%	18.2%	18.3%
GAAP operating expenses	12.9%	13.4%	12.7%
Non-GAAP adjustments	(0.6%)	(0.8%)	(0.4%)
Non-GAAP operating expenses	12.3%	12.6%	12.3%
GAAP operating income	5.6%	4.1%	5.2%
Non-GAAP adjustments	1.1%	1.5%	0.8%
Non-GAAP operating income	6.7%	5.6%	6.0%

Segment Discussion

Our four global business segments are Large Enterprise, Public, Small and Medium Business, and Consumer.

Severance and facility action expenses, broad based long-term incentive expenses, amortization of purchased intangible assets costs, acquisition-related expenses, and charges related to our settlement of the SEC investigation as well as a securities litigation class action lawsuit that were incurred during Fiscal 2011, are not allocated to the reporting segments as management does not believe that these items are reflective of the underlying operating performance of the reporting segments. These costs totaled \$1.1 billion, \$1.2 billion, and \$805 million during Fiscal 2011, Fiscal 2010, and Fiscal 2009, respectively.

See Note 16 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data for additional information and reconciliation of segment revenue and operating income to consolidated revenue and operating income.

The following table presents our net revenue and operating income by our reportable global segments:

January 28, 2011			Fiscal Year Ended January 29, 2010			January 30, 2009		
Dollars	% of Revenue^(a)	% Change	Dollars	% of Revenue^(a)	% Change	Dollars	% of Revenue^(a)	
(in millions, except percentages)								

Large Enterprise								
Net revenue	\$ 17,813	29%	25%	\$ 14,285	27%	(21%)	\$ 18,011	30%
Operating income	\$ 1,473	8%	80%	\$ 819	6%	(29%)	\$ 1,158	6%
Public								
Net revenue	\$ 16,851	27%	16%	\$ 14,484	27%	(6%)	\$ 15,338	25%
Operating income	\$ 1,484	9%	9%	\$ 1,361	9%	8%	\$ 1,258	8%
Small and Medium								
Business								
Net revenue	\$ 14,473	24%	20%	\$ 12,079	23%	(19%)	\$ 14,892	24%
Operating income	\$ 1,477	10%	42%	\$ 1,040	9%	(18%)	\$ 1,273	9%
Consumer								
Net revenue	\$ 12,357	20%	3%	\$ 12,054	23%	(6%)	\$ 12,860	21%
Operating income	\$ 65	1%	(39%)	\$ 107	1%	(65%)	\$ 306	2%

(a) Operating income percentage of revenue is stated in relation to the respective segment.

Table of Contents**Fiscal 2011 compared to Fiscal 2010**

Large Enterprise The year-over-year increase in Large Enterprise's revenue for Fiscal 2011 was mainly attributable to improved demand due to an ongoing hardware refresh among our Large Enterprise customers. Large Enterprise experienced year-over-year increases in revenue across all product lines during Fiscal 2011, except for storage revenue, which declined 5%. The decrease in storage revenue is primarily due to a decrease in the sale of third-party storage products as we shift towards more Dell-branded storage solutions. Revenue from servers and networking and services increased 33% and 35%, respectively. The increase in services revenue was largely due to the acquisition of Perot Systems in Fiscal 2010. Sales of client products generated large revenue increases with mobility and desktop PCs revenue increasing 33% and 25%, year-over-year, respectively. During Fiscal 2011, Large Enterprise's revenue increased year-over-year across all regions.

During Fiscal 2011, operating income as a percentage of revenue increased 260 basis points year-over-year to 8.3%. The increase was mostly driven by improvements in gross margin due to a shift in gross margin mix to enterprise solutions and services, improved component costs, better product quality, and improved pricing discipline, particularly in the latter half of Fiscal 2011 for client products. Revenue increases and tighter spending controls on operating expenses resulted in a decrease in operating expenses as a percentage of net revenue.

Public During Fiscal 2011, Public experienced a year-over-year increase in revenue across all product and service categories. Services contributed the largest increase, with a 69% increase in revenue over the prior year. The increase in services revenue was primarily a result of our acquisition of Perot Systems in Fiscal 2010. Revenue from servers and networking and storage increased 15% and 8% year-over-year, respectively. Software and peripherals revenue increased 10% year-over-year. Revenue from mobility and desktop PCs increased 5% and 6% year-over-year, respectively. Public's revenue grew during Fiscal 2011 across the Americas and the Asia-Pacific region, but declined in Europe due to budgetary constraints on public spending.

Public's operating income percentage declined 60 basis points to 8.8% for Fiscal 2011 due to a year-over-year increase in operating expenses as a percentage of revenue, offset in part by a slight increase in gross margin percentage. The increase in operating expenses was a result of higher selling and marketing costs.

Small and Medium Business During Fiscal 2011, SMB experienced a year-over-year increase in revenue with increases across all product and services categories. Servers and networking, and storage revenue increased 26% and 21% year-over-year, respectively. Revenue from mobility and desktop PCs increased 20% and 23% year-over-year, respectively, while software and peripherals revenue increased 16% year-over-year. The improved demand environment was a major contributor to the increase in revenue for all product categories. Services revenue increased 6% year-over-year. SMB revenue experienced year-over-year growth across all regions during Fiscal 2011. SMB revenue from BRIC grew 40% year-over-year.

Operating income percentage increased 160 basis points to 10.2%. The increase in operating income percentage was attributable to improved gross margins as a result of lower component costs and an improved pricing environment, as well as to a decrease in operating expenses as a percentage of revenue due to tighter spending controls.

Consumer Consumer's revenue increased 3% year-over-year during Fiscal 2011. Revenue from all product and services categories decreased year-over-year for Fiscal 2011, except mobility. Consumer mobility revenue increased by 8% year-over-year, due to increase of 8% in mobility units sold, while revenue from desktops PCs decreased by 1% due to a decline in desktop PC units of 2%. Average selling prices for Consumer mobility and desktop PCs were relatively flat year-over-year during Fiscal 2011. The increase in mobility revenue was due to improved unit demand for Consumer mobility products. Consumer services decreased 11% year-over-year and

software and peripherals revenue decreased 10% for the same period. We continue to see a shift in sales mix from direct to retail sales, which typically has lower attach rates for services and software and peripherals. At a country level, our U.S. Consumer revenue decreased 9% year-over-year due to softer demand, while our non-U.S. regions experienced 16% revenue growth. Revenue from BRIC grew 46% year-over-year for Fiscal 2011.

Table of Contents

For Fiscal 2011, Consumer's operating income percentage decreased 40 basis points year-over-year to 0.5%. The decrease in operating income percentage was largely attributable to a decrease in gross margin percentage. Consumer gross margin decreased due to the shift in sales mix from direct to indirect sales, which generally carry lower gross margin, which was not entirely offset by decreases in operating expenses as a percentage of revenue. Operating expenses as a percentage of revenue remained relatively flat year-over-year. In the second half of Fiscal 2011, Dell Financial Services, which provides financing to our customers, experienced improved delinquency and charge-off rates that partially offset the decrease in Consumer's operating income percentage. During the first quarter of Fiscal 2011, we combined Consumer and SMB under a single leadership team to reduce overall costs, though we are continuing to manage and report the two segments separately. From time to time, we monetize aspects of the Consumer business model with arrangements with vendors and suppliers, such as revenue sharing arrangements, which we believe will continue to contribute to and improve Consumer's operating income over time. The impact of our vendor and supplier arrangements was not material to our Fiscal 2011 results as compared to Fiscal 2010.

We expect to see the broad corporate refresh to continue for our Large Enterprise and SMB customers, with a favorable component cost environment that will continue through the first half of Fiscal 2012. We believe that, with the appropriate pricing strategy, we will continue to have opportunities to deliver strong year-over-year growth for our Large Enterprise and SMB segments. We expect that the Public segment will see growth, but that certain regions will continue to be impacted by budgetary constraints given the current economic environment. For our Consumer segment, we will continue to develop new products to move back to a mix of higher price band offerings, improve our supply chain, and focus on delivering a superior customer service experience to position our Consumer business for sustained profitable growth.

Fiscal 2010 compared to Fiscal 2009

Large Enterprise The decrease in Large Enterprise revenue during Fiscal 2010 was mainly due to the global economic downturn that began in the second half of Fiscal 2009. During Fiscal 2010, revenue from desktop PCs, mobility products, and storage items all declined approximately 30% year-over-year, and software and peripherals and servers and networking declined 19% and 4%, respectively. Services revenue increased year-over-year by 2%, which was largely due to the 48% increase in fourth quarter revenue, 36% of which was contributed by the acquisition of Perot Systems. Large Enterprise revenue decreased significantly year-over-year across most countries.

During Fiscal 2010, operating income percentage decreased 70 basis points year-over-year to 5.7%. Operating income deteriorated as revenue decreased year-over-year due to lower demand. Additionally, operating expenses as a percentage of revenue increased year-over-year even though operating expense dollars decreased 17%.

Public Public experienced a year-over-year decline in revenue during Fiscal 2010 due to the soft demand in the global economy. During Fiscal 2010, Public's revenue declined across all product categories except for services, and software and peripherals revenue, which grew year-over-year by 28% and 5%, respectively. The growth in services revenue was largely due to the acquisition of Perot Systems, which contributed \$418 million to Public's Fiscal 2010 services revenue. Without the contribution by Perot Systems, Public's services revenue would have remained relatively flat with the prior year. The product revenue decline was led by lower revenue from sales of desktop PCs, which decreased year-over-year by 20%.

During Fiscal 2010, operating income percentage increased 120 basis points year-over-year to 9.4%. Operating income was positively impacted by a year-over-year improvement in gross margin percentage during Fiscal 2010 as we continued to optimize our pricing and cost structure and sell higher value solutions to our customers. The addition of Perot Systems contributed 3% to the growth in operating income. Also favorably impacting operating income was a 5% year-over-year decrease in operating expenses during Fiscal 2010, driven by cost savings related to headcount

reductions and improved spending controls on SG&A and RD&E expenditures.

Small and Medium Business During Fiscal 2010, SMB experienced a 19% year-over-year decline in revenue due to double digit revenue declines across all product lines except storage and services. The revenue declines were led by a 28% and 18% decline in desktop PC and mobility revenue, respectively. We limited our

Table of Contents

participation in certain lower priced but higher demand bands in an effort to protect profitability. Storage and services had 9% and 8% year-over-year decreases, respectively. Consistent with our other Commercial segments performance, the contraction of the global economy during the first half of Fiscal 2010 and competitive pressures were significant contributors to SMB's year-over-year revenue declines. From a country perspective, SMB had year-over-year revenue declines in most countries except the BRIC countries, in which the combined revenue grew 24%.

Operating income percentage increased 10 basis points year-over-year to 8.6% during Fiscal 2010. Operating income dollars decreased 18% as revenue and unit shipments decreased significantly for both periods. Also impacting operating income was a slight increase in gross margin percentage during Fiscal 2010. We were also able to reduce operating expenses during Fiscal 2010, mainly due to tighter spending controls on SG&A and RD&E expenses.

Consumer During Fiscal 2010, Consumer's revenue declined 6% year-over-year, on unit growth of 19%. Even though unit shipments grew, our Consumer revenue decreased mainly due to the effects of our growth in retail, which tends to have lower average selling prices, combined with a shift in product mix and competitive pricing pressures. As a result, our average selling prices declined 21% year-over-year during Fiscal 2010. From a product perspective, Consumer's desktop PC revenue declined 24% during Fiscal 2010 as compared to Fiscal 2009 on a unit shipment decline of 10%. Mobility revenue increased 4% during Fiscal 2010. During the same period, mobility units shipped increased year-over-year by 32%; however, the positive impact of increased shipments was offset by an average selling price per unit decline of 21%. The continued shift in consumer preference from desktops to notebooks has contributed to our mobility unit growth. The reduction in mobility average selling prices was mainly attributable to our expansion into retail coupled with a demand shift from higher to lower priced notebooks and the growing popularity of netbooks. Software and peripherals and services revenue also declined 12% and 16% year-over-year, respectively, during Fiscal 2010. At a country level, our targeted BRIC revenue grew 46% during Fiscal 2010.

Consumer's operating income percentage declined approximately 150 basis points year-over-year to 0.9%. Consumer's operating performance was affected by a year-over-year decline in gross margin during Fiscal 2010 mainly due to the previously mentioned revenue declines and to component cost pressures. Even though operating expenses decreased year-over-year, operating expenses as a percentage of revenue remained relatively flat during Fiscal 2010 as compared to Fiscal 2009.

During Fiscal 2010, Consumer's revenue and operating income was favorably impacted by a second quarter \$53 million transaction, in which a vendor purchased our contractual right to share in future revenues from product renewals sold by the vendor. Excluding this transaction, Consumer's Fiscal 2010 operating income percentage would have been 0.4% instead of 0.9%.

Revenue by Product and Services Categories

We design, develop, manufacture, market, sell, and support a wide range of products that in many cases are customized to individual customer requirements. Our products are organized between enterprise and client categories. Our enterprise products include servers and networking, and storage products. Client products include mobility and desktop PC products. Our services include a broad range of configurable IT and business services, including infrastructure technology, consulting and applications, and product-related support services. We also offer software and peripheral products.

Table of Contents

The following table summarizes our net revenue by product and services categories for each of the past three fiscal years:

	January 28, 2011			Fiscal Year Ended January 29, 2010			January 30, 2009	
	Dollars	% of Revenue	% Change	Dollars	% of Revenue	% Change	Dollars	% of Revenue
	(in millions, except percentages)							
<i>Net revenue:</i>								
Enterprise solutions and services:								
Enterprise solutions:								
Servers and networking	\$ 7,609	12%	26%	\$ 6,032	11%	(7%)	\$ 6,512	11%
Storage	2,295	4%	5%	2,192	4%	(18%)	2,667	4%
Services	7,673	12%	36%	5,622	11%	5%	5,351	9%
Software and peripherals	10,261	17%	8%	9,499	18%	(10%)	10,603	17%
Client:								
Mobility	18,971	31%	14%	16,610	31%	(11%)	18,604	30%
Desktop PCs	14,685	24%	13%	12,947	25%	(25%)	17,364	29%
Total net revenue	\$ 61,494	100%	16%	\$ 52,902	100%	(13%)	\$ 61,101	100%

Fiscal 2011 compared to Fiscal 2010**Enterprise Solutions and Services***Enterprise Solutions:*

Servers and Networking The increase in our servers and networking revenue for Fiscal 2011 as compared to the same periods of Fiscal 2010 was due to demand improvements across all Commercial segments. During Fiscal 2011, unit shipments increased 13% year-over-year, and average selling prices increased 12%, driven by improved product mix toward our new product lines.

Storage Storage revenue increased 5% for Fiscal 2011. The increase in Storage revenue was primarily driven by our SMB segment with a 21% increase year-over-year. Dell EqualLogic continued to perform strongly, with year-over-year revenue growth of 62%. We believe we will generate higher margins as we shift towards more Dell-branded storage offerings, which generally can be sold with service solutions.

Services Services revenue increased \$2.1 billion from \$5.6 billion during Fiscal 2010 to \$7.7 billion during Fiscal 2011, with revenue from Perot Systems contributing a large proportion of the increase. As Perot Systems was acquired on November 3, 2009, our services results for Fiscal 2010 include contributions from Perot Systems for one fiscal quarter. Perot Systems reported revenue of \$1.9 billion for the three quarters ended September 30, 2009. Perot Systems results for the three quarters ended September 30, 2009, are presented for informational purposes only and are not indicative of the results that actually would have

occurred if the acquisition had been completed at the beginning of Fiscal 2010, nor are they indicative of future results. Combining the results of Perot Systems' revenue for the three quarters ended September 30, 2009, with Dell Services revenue for the Fiscal 2010, does not take into consideration intercompany charges, synergies, or other effects of the integration of Perot Systems.

The integration of Perot Systems primarily impacted our Public and Large Enterprise segments. We continue to view services as a strategic growth opportunity and will continue to invest in our offerings and resources to focus on increasing our solutions sales. With the ongoing integration of Perot Systems, we have simplified the way we view our services business by grouping offerings with similar demand, economic and delivery profiles into three categories of services: transactional; outsourcing; and project-based.

During Fiscal 2011, we experienced increases in our outsourcing and project-based revenues, due to our acquisition of Perot Systems, while transactional revenues remained relatively flat. Our estimated services

Table of Contents

backlog as of January 28, 2011 and January 29, 2010, was \$13.9 billion and \$12.8 billion, respectively. We provide information regarding services backlog because we believe it provides useful trend information regarding changes in the size of our services business over time. Services backlog, as defined by us, includes deferred services revenue and contracted services backlog. Deferred services revenue, which consists primarily of our extended warranties, was \$6.7 billion and \$6.1 billion as of January 28, 2011 and January 29, 2010, respectively. Estimated contracted services backlog, which is primarily related to our outsourcing services business, was \$7.2 billion and \$6.7 billion, as of January 28, 2011 and January 29, 2010, respectively. While there are no third-party standards or requirements governing the calculation of contracted services backlog, our estimated contracted services backlog represents signed contracts initially exceeding \$2 million in total expected revenue and having an initial contract term exceeding 18 months. The terms of the signed services contracts included in our calculation of services backlog are subject to change and are affected by terminations, changes in the scope of services, and changes to other factors that could impact the value of the contract. For these and other reasons, it is not reasonably practicable to estimate the portions for these backlog amounts that will ultimately be recognized as revenue when performance on the contracts is completed.

Software and Peripherals Revenue from sales of software and peripherals (S&P) is derived from sales of Dell-branded printers, monitors (not sold with systems), projectors, keyboards, mice, docking stations, and a multitude of third-party peripherals, including televisions, cameras, stand-alone software sales and related support services, and other products. The 8% increase in S&P revenue for Fiscal 2011 was driven by overall customer unit shipment increases due to sales of displays and electronics and peripherals, which experienced a combined year-over-year revenue increase of 15% for Fiscal 2011, while revenue from imaging products decreased by 6%.

Software revenue from our S&P line of business, which includes stand alone sales of software license fees and related post-contract customer support, is reported in services revenue, including software related on our Consolidated Statements of Income. Software and related support services revenue represented 33% and 39% of services revenue, including software related for Fiscal 2011 and Fiscal 2010, respectively.

Client

Mobility Revenue from mobility products (which include notebook computers, mobile workstations, and smartphones) increased 14% during Fiscal 2011 across all operating segments due to demand improvements. Mobility units increased 14%, while average selling prices remained flat during Fiscal 2011. During Fiscal 2011, overall Commercial mobility revenue increased 19% year-over-year, and revenue from Consumer mobility increased 8%. The increase in Commercial mobility was driven by increases in demand for our Latitude notebooks. We believe the on-going demand trend towards mobility products will continue, and we plan to address this demand by expanding our product platforms to cover broader feature sets and price bands.

Desktop PCs During Fiscal 2011, revenue from desktop PCs (which include desktop computer systems and fixed workstations) increased as unit demand for desktop PCs increased by 10%. The average selling price for our desktop computers increased by 3% year-over-year due to a slight shift in product mix to higher priced units. The increase in unit demand was driven by our Large Enterprise and SMB customers, generating 25% and 23%, respectively, increases in revenue year-over-year for Fiscal 2011. These increases were driven primarily by the stronger demand for our Optiplex desktop PCs and fixed work stations. In the consumer marketplace, we are continuing to see rising end-user demand for mobility products, which moderates the demand for desktop PCs.

Fiscal 2010 compared to Fiscal 2009**Enterprise Solutions and Services**

Enterprise Solutions

Servers and Networking The decline in our servers and networking revenue during Fiscal 2010 was due to demand challenges across all Commercial segments and regions. Unit shipments decreased 12%

Table of Contents

year-over-year, though average selling prices increased 6% year-over-year, driven by improved product mix toward our new product lines.

Storage All Commercial segments contributed to the year-over-year decrease in storage revenue during Fiscal 2010. Dell EqualLogic performed strongly with year-over-year revenue growth of 45%.

Services Services revenue increased year-over-year during Fiscal 2010 with revenue from Perot Systems contributing \$588 million of the increase. Without the contribution by Perot Systems, services revenue would have decreased 6%. A significant portion of Dell's services is made up of support services, which tend to correlate with hardware unit growth. Therefore, excluding the impact of Perot Systems, our declines in unit shipments contributed to the year-over-year services revenue decline. Perot Systems primarily impacted our Public and Large Enterprise segments, with \$418 million and \$160 million in services revenue, respectively. Our deferred services revenue balance increased 6.5% year-over-year to \$6.1 billion at January 29, 2010.

Software and Peripherals The decline in S&P revenue was driven by overall customer unit shipment declines and demand softness in displays, imaging products, and electronics, which experienced year-over-year revenue decreases of 27%, 20%, and 9%, respectively, for Fiscal 2010. We saw growth in software licensing, with revenue improvement of 5% during Fiscal 2010. All segments experienced year-over-year revenue declines during Fiscal 2010, except for Public, which experienced year-over-year S&P revenue growth of 5%.

Client

Mobility Revenue from mobility products declined during Fiscal 2010 even though unit shipments increased 7% over Fiscal 2009 due to an industry mix shift to lower priced mobility product offerings. The unit increase was primarily driven by a 32% year-over-year increase in Consumer units, while Commercial units declined 12% for the same period. Overall, Consumer mobility revenue increased 4% year-over-year, while Commercial declined 20%.

Desktop PCs During Fiscal 2010, revenue from desktop PCs decreased on unit declines of 17%. In the marketplace, we saw rising end-user demand for mobility products, which contributed to further slowing demand for desktop PCs. The decline in desktop PC revenue was also due to the on-going competitive pricing pressure for lower priced desktops and the slowdown in global IT end-user demand during Fiscal 2010. Consequently, our average selling price for desktops decreased 11% year-over-year as we aligned our prices and product offerings with the marketplace. During Fiscal 2010, desktop revenue decreased across all segments.

Stock-Based Compensation

We use our 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 \$332 million for Fiscal 2011, compared to \$312 million and \$418 million for Fiscal 2010 and Fiscal 2009, respectively. Stock-based compensation expense for Fiscal 2009 included \$104 million of expense for accelerated options. For further discussion on stock-based compensation, see Note 15 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data.

Table of Contents**Interest and Other, net**

The following table provides a detailed presentation of interest and other, net for Fiscal 2011, 2010, and 2009:

	Fiscal Year Ended		
	January 28, 2011	January 29, 2010	January 30, 2009
	(in millions)		
<i>Interest and other, net:</i>			
Investment income, primarily interest	\$ 47	\$ 57	\$ 180
Gains (losses) on investments, net	6	2	(10)
Interest expense	(199)	(160)	(93)
Foreign exchange	4	(59)	115
Other	59	12	(58)
Interest and other, net	\$ (83)	\$ (148)	\$ 134

Fiscal 2011 compared to Fiscal 2010

We continued to maintain a portfolio of instruments with shorter maturities, which typically carry lower market yields. During Fiscal 2011, our investment income declined slightly, even with higher average balances, primarily due to a continued decline in market yields. Overall investment yield in Fiscal 2011 declined from approximately 48 basis points during Fiscal 2010 to approximately 35 basis points.

The year-over-year increase in interest expense for Fiscal 2011 was due to higher debt levels, which increased to \$6.0 billion as of January 28, 2011, from \$4.1 billion as of January 29, 2010.

The year-over-year change in foreign exchange for Fiscal 2011 was primarily due to gains from revaluation of certain un-hedged foreign currency balances, partially offset by increases in the costs associated with the hedge program.

Other includes a \$72 million merger termination fee received during Fiscal 2011.

Fiscal 2010 compared to Fiscal 2009

During Fiscal 2010, our investment income declined, even with higher average balances, primarily due to a decrease in market yields. Increased long-term and short-term debt during Fiscal 2010 resulted in increased interest expense.

Other, in the table above, primarily reflects the fair market value adjustments related to our deferred compensation plan investments. We recognized a \$24 million increase and a \$35 million decline in the fair market values of our deferred compensation plan investments during Fiscal 2010 and Fiscal 2009, respectively.

The year-over-year decrease in foreign exchange for Fiscal 2010, as compared to Fiscal 2009, was primarily due to increased costs on our hedge program, as well as revaluation on balances in un-hedged currencies, as most foreign currencies strengthened relative to the U.S. Dollar during Fiscal 2010. In addition, for Fiscal 2009, a \$42 million gain resulted from the correction of errors in the remeasurement of certain local currency balances to the functional currency in prior periods.

Income and Other Taxes

Our effective tax rate was 21.3%, 29.2%, and 25.4% for Fiscal 2011, 2010, and 2009, respectively. The decrease in our effective income tax rate for Fiscal 2011 as compared to Fiscal 2010, was primarily due to an increase in the proportion of taxable income attributable to lower tax jurisdictions during Fiscal 2011. The differences between our effective tax rate and the U.S. federal statutory rate of 35% principally resulted 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 2010 from Fiscal 2009 was primarily due to an increased mix of profits in

Table of Contents

higher tax rate jurisdictions. Our foreign earnings are generally taxed at lower rates than in the United States. We continue to assess our business model and its impact in various tax jurisdictions.

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 are currently under income tax audits in various jurisdictions, including the United States. As a result of these audits, we maintain ongoing discussions and negotiations relating to tax matters with the taxing authorities in these various jurisdictions. The Internal Revenue Service (IRS) issued a Revenue Agent's Report for fiscal years 2004 through 2006 proposing certain assessments primarily related to transfer pricing matters. We disagree with certain of the proposed assessments and have contested them through the IRS administrative appeals procedures. The IRS has recently remanded the audit for fiscal years 2004 through 2006 back to examination for further review. We continue to believe that adequate reserves have been provided relating to all matters contained in tax periods open to examination. However, should we experience an unfavorable outcome in the matter before the IRS Appeals Division, such an outcome could have a material impact on our financial statements.

We take certain non-income tax positions in the jurisdictions in which we operate and have received certain non-income tax assessments from some of these jurisdictions. These jurisdictions include Brazil, where we have been in litigation with a state government over the proper application of transactional taxes to warranties and software related to the sale of computers, as well as over the appropriate use of state statutory incentives to reduce the transactional taxes. We have also negotiated certain tax incentives with the state that can be used to offset potential tax liabilities should the courts rule against us. Recently, we settled two cases related to warranties and software under a taxpayer amnesty program utilizing the incentive credits instead of cash to minimize the impact to our consolidated financial statements. The third outstanding case, which is on appeal and for which we have pledged our manufacturing facility in Hortolandia, Brazil to the government, remains pending. We do not expect the outcome of this case to have a material impact to our financial statements.

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 change, changes in estimates to our accrued liabilities would be recorded in the period in which the determination is made.

For a further discussion of the impact of uncertain tax positions, see Note 12 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data.

ACCOUNTS RECEIVABLE

We sell products and services directly to customers and through a variety of sales channels, including retail distribution. At January 28, 2011, our accounts receivable, net was \$6.5 billion, a 11% increase from our balance at January 29, 2010. This increase in accounts receivable was primarily due to growth in our Commercial business, which typically has longer payment terms, and an increase in fourth quarter revenue as compared to Fiscal 2010. 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 a general provision based on historical bad debt experience. As of January 28, 2011 and January 29, 2010, the allowance for doubtful accounts was \$96 million and \$115 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 continue to take actions to reduce our exposure to credit losses.

DELL FINANCIAL SERVICES AND FINANCING RECEIVABLES

DFS offers a wide range of financial services in the U.S., including originating, collecting, and servicing customer receivables related to the purchase of Dell products. To support the financing needs of our customers internationally,

Table of Contents

we have aligned with a select number of third party financial services companies. We are exploring the possibility of expanding DFS operations into select international markets.

The results of DFS are included in the business segment where the customer receivable was originated. DFS has contributed to the growth in profitability for all of our business segments in recent periods.

At January 28, 2011 and January 29, 2010, our net financing receivables balances were \$4.4 billion and \$3.0 billion, respectively. The increase was primarily the result of the consolidation of two previously nonconsolidated qualifying special purpose entities (SPEs) and a purchase of revolving customer receivables from CIT Group Inc. (CIT) as discussed below. To manage the expected growth in financing receivables, we will continue to balance the use of our own working capital and other sources of liquidity, including securitization programs. Beginning in the first quarter of Fiscal 2011, CIT, formerly a joint venture partner of Dell Financial Services L.L.C. (DFS), our wholly-owned subsidiary, is no longer funding DFS financing receivables.

During Fiscal 2011, we continued to transfer certain customer financing receivables to SPEs in securitization transactions. The purpose of the SPEs is to facilitate the funding of customer receivables through financing arrangements with multi-seller conduits that issue asset-backed debt securities in the capital markets. We transferred \$1.9 billion, \$0.8 billion, and \$1.4 billion to these SPEs during Fiscal 2011, Fiscal 2010, and Fiscal 2009, respectively. Our risk of loss related to these securitized receivables is limited to the amount of our over-collateralization in the transferred pool of receivables. We have a securitization program to fund revolving loans through a consolidated SPE, which we account for as a secured borrowing. Additionally, as of January 29, 2010, the two SPEs that funded fixed-term leases and loans were not consolidated. As of the beginning of the first quarter of Fiscal 2011, we adopted the new accounting guidance that requires us to apply variable interest entity accounting to these special purpose entities and therefore consolidated the two remaining nonconsolidated SPEs. The impact of the adoption resulted in a \$1 million decrease to beginning retained earnings for Fiscal 2011 and did not impact our results of operations or our cash flows. Starting in the first quarter of Fiscal 2011, we account for these fixed-term securitization programs as secured borrowings. At January 28, 2011 and January 29, 2010, the structured financing debt related to all of our secured borrowing securitization programs was \$1.0 billion and \$164 million, respectively, and the carrying amount of the corresponding financing receivables was \$1.3 billion and \$0.3 billion, respectively.

During Fiscal 2011, we purchased a portfolio of revolving receivables from CIT that consisted of revolving Dell customer account balances. These receivables, which are considered credit impaired loans, were purchased for \$430 million and had a principal and accrued interest balance of \$570 million at the date of purchase. All of the receivables have been serviced by DFS since their inception. In connection with the acquisition, we ended our servicing relationship with CIT for these assets. See the Restricted Cash discussion for additional information on the termination of our agreement with CIT. We believe the overall economics generated by these assets will be accretive to our results and will provide an acceptable return on capital.

We maintain an allowance to cover expected financing receivable credit losses and evaluate credit loss expectations based on our total portfolio. For Fiscal 2011, Fiscal 2010, and Fiscal 2009, the principal charge-off rate for our total portfolio, excluding the effect of the receivables purchased from CIT during Fiscal 2011, was 6.6%, 8.0%, and 7.0%, respectively. If the receivables purchased from CIT had been included in our portfolio for all of Fiscal 2011, the rate would have been 7.5%. Principal charge-offs for the purchased receivables do not impact our allowance for losses as they were contemplated in the purchase price and are reflected in the yield recognized as interest income. The allowance for losses is determined based on various factors, including historical and anticipated experience, past due receivables, receivable type, and customer risk profile. At January 28, 2011 and January 29, 2010, the allowance for financing receivable losses was \$241 million and \$237 million, respectively. In general, we are seeing improving loss rates associated with our financing receivables as the economy has stabilized. We have an extensive process to manage our exposure to customer risk, including active management of credit lines and our collection activities. The

credit quality mix of our financing receivables has improved in recent years due to our underwriting actions and as the mix of high quality commercial accounts in our portfolio has increased. Based on our assessment of the customer financing receivables, we believe that we are adequately reserved.

The Credit Card Accountability, Responsibility, and Disclosure Act of 2009 was signed into U.S. law on May 22, 2009, and has affected the consumer financing provided by DFS. Commercial credit is unaffected by the changes in law. All provisions of the law are now in effect. This Act imposed new restrictions on credit card companies in the

Table of Contents

areas of marketing, servicing, and pricing of consumer credit accounts. The changes have not substantially altered how consumer credit is offered to our customers or how their accounts are serviced. We do not believe that the impact of these changes is material to our financial results.

See Note 4 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data for additional information about our financing receivables and the associated allowance.

OFF-BALANCE SHEET ARRANGEMENTS

With the consolidation of our previously nonconsolidated special purpose entities, we no longer have off-balance sheet financing arrangements.

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

During Fiscal 2011, the principal foreign currencies in which we transacted business were the Euro, Chinese Renminbi, British Pound, Japanese Yen, Canadian Dollar, and Australian Dollar. Our objective in managing our exposures to foreign currency exchange rate fluctuations is to reduce the impact of adverse fluctuations associated with foreign currency exchange rate changes on our earnings and cash flows. Accordingly, we utilize foreign currency option contracts and forward contracts to hedge our exposure on forecasted transactions and firm commitments for certain currencies. During Fiscal 2011, we hedged our exposures on more than 20 currencies. 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.

Based on our foreign currency cash flow hedge instruments outstanding at January 28, 2011 and January 29, 2010, we estimate a maximum potential one-day loss in fair value of approximately \$65 million and \$86 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 3,000 randomly generated market prices and calculates the difference between the fifth percentile and the average as the Value-at-Risk. The VAR model is a risk estimation tool and 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 28, 2011, we had \$15.1 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.

Table of Contents

The following table summarizes our ending cash, cash equivalents, and investments balances for the respective periods:

	Fiscal Year Ended	
	January 28, 2011	January 29, 2010
	(in millions)	
<i>Cash, cash equivalents, and investments:</i>		
Cash and cash equivalents	\$ 13,913	\$ 10,635
Debt securities	1,032	1,042
Equity and other securities	124	112
Cash, cash equivalents, and investments	\$ 15,069	\$ 11,789

Of the \$15.1 billion of cash, cash equivalents, and investments, \$13.9 billion is classified as cash and cash equivalents. Our cash equivalents primarily consist of money market funds and commercial paper. 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. Our cash equivalents are recorded at fair value.

The remaining \$1.2 billion of cash, cash equivalents, and investments is primarily invested in fixed income securities, including government, agency 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 than by credit and liquidity risks. We attempt to mitigate these risks by investing primarily in high credit quality securities, limiting the amount that can be invested in any single issuer, and investing in short -to intermediate-term investments whose market value is less sensitive to interest rate changes. Based on our investment portfolio and interest rates at January 28, 2011, a 100 basis point increase or decrease in interest rates would result in a decrease or increase of approximately \$4 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 28, 2011, our portfolio included securities with unrealized losses totaling \$1 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.

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 the accounting guidance on fair value measurements. We conduct reviews on a quarterly basis to verify pricing, assess liquidity, and determine if significant inputs have changed that would impact our fair value disclosures.

LIQUIDITY, CAPITAL COMMITMENTS, AND CONTRACTUAL CASH OBLIGATIONS**Current Market Conditions**

We regularly monitor economic conditions and associated impacts on the financial markets and our business. Though there was improvement in the global economic environment during Fiscal 2011, we continue to be cautious given the volatility associated with currency markets, international sovereign economies, and other economic indicators. We continue to evaluate the financial health of our supplier base, carefully manage customer credit, diversify counterparty risk, and monitor the concentration risk of our cash and cash equivalents balances globally.

We monitor credit risk associated with our financial counterparties using various market credit risk indicators such as credit ratings issued by nationally recognized rating agencies and changes in market credit default swap levels. We perform periodic evaluations of our positions with these counterparties and may limit exposure to any one

Table of Contents

counterparty in accordance with our policies. We monitor and manage these activities depending on current and expected market developments.

See Part I Item 1A Risk Factors for further discussion of risks associated with our use of counterparties. The impact on our Consolidated Financial Statements of any credit adjustments related to these counterparties has been immaterial.

Liquidity

Cash generated from operations is our primary source of operating liquidity and we believe that internally generated cash flows are sufficient to support day-to-day business operations. Our working capital management team actively monitors the efficiency of our balance sheet 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, both domestically and internationally, to support our acquisition and investment strategy, share repurchase activity and other corporate needs. We utilize external capital sources, such as long-term notes and structured financing arrangements, and short-term borrowings, consisting primarily of commercial paper, to supplement our internally generated sources of liquidity as necessary. We have a currently effective shelf registration statement filed with the SEC for the issuance of debt securities. The current shelf registration will terminate during the first quarter of Fiscal 2012 and we intend to replace the shelf registration prior to its termination to allow us to continue to issue debt securities. We anticipate we will enter the debt capital markets in the near term; however, it will depend on the favorability of market conditions. We intend to maintain appropriate debt levels based upon cash flow expectations, the overall cost of capital, cash requirements for operations, and discretionary spending, including for acquisitions and share repurchases. Due to the overall strength of our financial position, we believe that we will have adequate access to capital markets. Any future disruptions, uncertainty or volatility in those markets may result in higher funding costs for us and adversely affect our ability to obtain funds.

Our cash balances are held in numerous locations throughout the world, most of which are outside of the U.S. While our U.S. cash balances do fluctuate, we typically operate with 10-20% of our cash balances held domestically. Demand on our domestic cash has increased as a result of our strategic initiatives. We fund these initiatives through a balance of internally generated cash, external sources of capital, which includes our \$2 billion commercial paper program, and, when advantageous, access to foreign cash in a tax efficient manner. Where local regulations limit an efficient intercompany transfer of amounts held outside of the U.S., we will continue to utilize these funds for local liquidity needs. Under current law, balances available to be repatriated to the U.S. would be subject to U.S. federal income taxes, less applicable foreign tax credits. We have provided for the U.S. federal tax liability on these amounts for financial statement purposes, except for foreign earnings that are considered permanently reinvested outside of the U.S. We utilize a variety of tax planning and financing strategies with the objective of having our worldwide cash available in the locations where it is needed. Our non-U.S. domiciled cash and investments are generally denominated in the U.S. Dollar.

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

	Fiscal Year Ended		
	January 28, 2011	January 29, 2010	January 30, 2009
	(in millions)		
<i>Net change in cash from:</i>			
Operating activities	\$ 3,969	\$ 3,906	\$ 1,894
Investing activities	(1,165)	(3,809)	177

Edgar Filing: DELL INC - Form 10-K

Financing activities	477	2,012	(1,406)
Effect of exchange rate changes on cash and cash equivalents	(3)	174	(77)
Change in cash and cash equivalents	\$ 3,278	\$ 2,283	\$ 588

45

Table of Contents

Operating Activities Operating cash flows for Fiscal 2011 increased slightly compared to the prior fiscal year. Fiscal 2011 net income and deferred revenue increased year-over-year, but were offset by less favorable changes in working capital. For Fiscal 2010 compared to Fiscal 2009, the increase in operating cash flows was primarily attributable to the improvement of our cash conversion cycle, as a result of operational improvements related to our vendor programs, the effects of which were partially offset by the decrease in net income and growth in financing receivables. Our negative cash conversion cycle combined with revenue growth typically results in operating cash generation in excess of net income. See Key Performance Metrics below for additional discussion of our cash conversion cycle.

Investing Activities Investing activities consist of the net of maturities and sales and purchases of investments; net capital expenditures for property, plant, and equipment; principal cash flows related to purchased financing receivables; and net cash used to fund strategic acquisitions. Cash used in investing activities during Fiscal 2011 was \$1.2 billion compared to cash used of \$3.8 billion and cash provided of \$177 million during Fiscal 2010 and Fiscal 2009, respectively. The year-over-year decrease in cash used in investing activities for Fiscal 2011 was mainly due to lower acquisition spending, partially offset by a \$430 million purchase of financing receivables from CIT. The purchase of these financing receivables has allowed us to substantially end our servicing relationship with CIT related to the previous joint venture in the U.S. Additionally, we believe that the return on capital generated by these assets will be equal to or higher than that achieved by other financing activities. Cash used to fund strategic acquisitions, net of cash acquired, was approximately \$376 million during Fiscal 2011 compared to \$3.6 billion and \$176 million during Fiscal 2010 and Fiscal 2009, respectively. Our Fiscal 2011 acquisitions consisted of Kace Networks, Inc., Ocarina Networks Inc., Scalent Systems, Inc., Boomi, Inc., and InSite One, Inc.. Our principal acquisition in Fiscal 2010 was Perot Systems.

Financing Activities Financing activities primarily consist of proceeds and repayments from borrowings and the repurchase of our common stock. The year-over-year decrease in cash provided by financing activities for Fiscal 2011 was mainly due to the repurchase of our common stock and repayment of commercial paper. We repurchased 57 million shares of common stock for \$800 million during Fiscal 2011. The amount of shares we purchased during Fiscal 2010 was immaterial to financing activities compared to approximately 134 million shares repurchased at an aggregate cost of \$2.9 billion during Fiscal 2009. During Fiscal 2011, net cash used for repayment of commercial paper with maturities of both greater than and less than 90 days was \$496 million, which was partially offset by \$305 million in net proceeds from structured financing programs. We had net proceeds of \$396 million and \$100 million from commercial paper sales during Fiscal 2010 and Fiscal 2009, respectively. During both Fiscal 2011 and Fiscal 2010, we had net proceeds from issuance of long-term debt of \$1.5 billion. We had \$4.8 billion principal amount of long-term notes outstanding as of January 28, 2011 compared to \$3.3 billion and \$1.8 billion at January 29, 2010 and January 30, 2009, respectively.

During Fiscal 2011, we entered into a new agreement to expand our commercial paper program to \$2 billion. We have \$2 billion of senior unsecured revolving credit facilities supporting the commercial paper program. Our \$2 billion of credit facilities consist of two agreements, with \$1 billion expiring on June 1, 2011, and the remaining \$1 billion expiring on April 2, 2013. We intend to enter into a new senior unsecured revolving credit facility for a minimum of \$1 billion prior to the expiration of the current facility in Fiscal 2012.

During Fiscal 2011, we issued commercial paper with original maturities of less than 90 days. As of January 28, 2011, we did not have any amounts outstanding under the commercial paper program compared to \$496 million as of January 29, 2010, and \$100 million as of January 30, 2009.

We issued structured financing-related debt to fund our financing receivables as previously discussed in the Financing Receivables section above. The total debt capacity of our securitization programs is \$1.4 billion, and we had \$1.0 billion in outstanding structured financing securitization debt as of January 28, 2011. During Fiscal 2011, we renewed one of our fixed-term securitization programs and increased the debt capacity by \$100 million. We replaced

the other fixed-term securitization program with no change in debt capacity. In addition, we expanded our existing revolving loan securitization program with a new program that increased debt capacity levels by \$150 million.

See Note 5 of the Notes to Consolidated Financial Statements under Part II Item 8 Financial Statements and Supplementary Data for further discussion of our debt.

Table of Contents

Key Performance Metrics Our cash conversion cycle for the fiscal quarter ended January 28, 2011 deteriorated from the fiscal quarter ended January 29, 2010 and improved from the fiscal quarter ended January 30, 2009. Our business model allows us to maintain an efficient cash conversion cycle, which compares favorably with that of others in our industry.

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

	Fiscal Quarter Ended		
	January 28, 2011	January 29, 2010	January 30, 2009
Days of sales outstanding ^(a)	40	38	35
Days of supply in inventory ^(b)	9	8	7
Days in accounts payable ^(c)	(82)	(82)	(67)
Cash conversion cycle	(33)	(36)	(25)

- (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 28, 2011, January 29, 2010 and January 30, 2009, DSO and days of customer shipments not yet recognized were 37 and 3 days, 35 and 3 days, and 31 and 4 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 decreased three days at January 28, 2011, from January 29, 2010, driven by a two day increase in DSO and a one day increase in DSI. DPO was flat year-over-year. The increase in DSO from January 29, 2010, was due to growth in our commercial business, which typically has longer payment terms. The slight increase in DSI from January 29, 2010, was primarily attributable to the optimization of our supply chain requiring an increase in strategic purchases of materials and finished goods inventory.