DELL INC
Form 10-K
October 30, 2007

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

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended: February 2, 2007
or

o **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	**74-2487834**
(State or other jurisdiction of incorporation or organization)	(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: **(512) 338-4400**

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, par value $.01 per share

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 Act. Yes þ No o

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 o No þ

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

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. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One):
Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Approximate aggregate market value of the registrant s common stock held by non-affiliates as of August 3, 2007, based upon the closing price reported for such date on The NASDAQ Stock Market	**$54.0 billion**
Number of shares of common stock outstanding as of October 19, 2007	**2,235,866,516**

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This report contains forward-looking statements that are based on Dell s current expectations. Actual results in future periods may differ materially from those expressed or implied by those forward-looking statements because of a number of risks and uncertainties. For a discussion of risk factors affecting our business and prospects, see Part I Item 1A Risk Factors.

All percentage amounts and ratios were calculated using the underlying data in thousands. Unless otherwise noted, all references to industry share and total industry growth data are for personal computers (including desktops, notebooks, and x86 servers), and are based on information provided by IDC Worldwide Quarterly PC Tracker, September 2007. Share data is for the full calendar year and all our growth rates are on a fiscal year-over-year basis. Unless otherwise noted, all references to time periods refer to our fiscal periods.

Special Note

Along with this report, we are filing our amended quarterly report for the first quarter of Fiscal 2007 and our delayed quarterly reports for the second and third quarters of Fiscal 2007 and the first and second quarters of Fiscal 2008. These reports were amended or delayed due to questions raised in an independent investigation into certain accounting and financial reporting matters conducted by our Audit Committee. That investigation has been completed, and the investigator has reported the results to the Audit Committee. As a result of issues identified in that investigation, as well as issues identified in additional reviews and procedures conducted by management, the Audit Committee, in consultation with management and PricewaterhouseCoopers LLP, our independent registered public accounting firm, concluded on August 13, 2007 that our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements. Accordingly, we have restated our previously issued financial statements for those periods. The adjustments made as a result of the restatement are more fully discussed in Note 2 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data, and the cumulative impact of the restated financial results at the beginning of Fiscal 2003 is presented in Part II Item 6 Selected Financial Data. For additional discussion of the investigation, the accounting errors and irregularities identified, and the restatement adjustments, see Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Audit Committee Independent Investigation and Restatement and Note 2 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data. For a description of the control deficiencies identified by management as a result of the investigation and our internal reviews, and management s plan to remediate those deficiencies, see Part II Item 9A Controls and Procedures.

PART I

ITEM 1 BUSINESS

General

Dell listens to customers and delivers innovative technology and services they trust and value. As a leading technology company, we offer a broad range of product categories, including desktop computer systems, storage, servers and networking products, mobility products, software and peripherals, and enhanced services. We are the number one supplier of personal computer systems in the United States, and the number two supplier worldwide.

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. Our corporate headquarters are located in

Round Rock, Texas, and we conduct operations worldwide through subsidiaries. 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 three geographic regions: the Americas; Europe, Middle East and Africa (EMEA); and Asia Pacific-Japan (APJ). See Part I Item 1 Business Geographic Areas of Operatio

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. We recently set an ambitious long-term goal to be the greenest technology company on the planet, and have a number of efforts that take the environment into account at every stage of the product lifecycle. See Part I Item 1 Business Sustainability.

This also includes our renewed focus on achieving and maintaining a strong control environment, high ethical standards, and financial reporting integrity. See Part II Item 9A Controls and Procedures.

Business Strategy

Our business strategy is evolving as we combine our direct customer model with relevant technologies and solutions, highly efficient manufacturing and logistics, and new distribution channels to reach commercial customers and individual consumers around the world. Using this strategy, we strive to provide the best possible customer experience by offering superior value; high-quality, relevant technology; customized systems; superior service and support; and differentiated products and services that are easy to buy and use. Historically, our growth has been driven organically from our core businesses. Recently, we have begun to pursue a targeted acquisition strategy designed to augment areas of our business to gain more access to products, services, and technology that our customers value.

Our core values include the following:

We simplify information technology for customers. Making quality personal computers, servers, storage, and services affordable is Dell s legacy. We are focused on making information technology affordable for millions of customers around the world. As a result of our direct relationships with customers, or customer intimacy, we are best positioned to simplify how customers implement and maintain information technology and deliver hardware, services, and software solutions tailored for their businesses and homes.

We offer customers choice. Customers can purchase systems and services from Dell via telephone, kiosks, and our website, www.dell.com, where they may review, configure, and price systems within our entire product line; order systems online; and track orders from manufacturing through shipping. Customers may offer suggestions for current and future Dell products and services through an interactive portion of our website called Dell IdeaStorm. Commercial customers also can interact with dedicated account teams. We have recently launched a retail initiative and plan to expand that initiative by adding new distribution channels to reach additional consumers and small businesses through retail partners and value-added resellers globally.

Customers can purchase custom-built products and custom-tailored services. Historically our flexible, build-to-order manufacturing process enabled us to turn over inventory every five days on average, thereby reducing inventory levels, and rapidly bring the latest technology to our customers. The market and our competition has evolved, and we are now exploring the utilization of original design manufacturers and new distribution strategies to better meet customer needs and reduce product cycle times. Our goal is to introduce the latest relevant technology more quickly and to rapidly pass on component cost savings to a broader set of our customers worldwide.

We are committed to being environmentally responsible in all areas of our business. We have built environmental consideration into every stage of the Dell product life cycle from developing and designing energy-efficient products, to reducing the footprint of our manufacturing and operations, to customer use and product recovery.

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Product Development

We focus on developing standards-based technologies that incorporate highly desirable features and capabilities at competitive prices. We employ a collaborative approach to product design and development, where 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. Our research, development, and engineering expenses were $498 million for Fiscal 2007, $458 million for Fiscal 2006, and $460 million for Fiscal 2005.

Products and Services

We design, develop, manufacture, market, sell, and support a wide range of products that in many cases are customized to individual customer requirements. Our product categories include desktop computer systems, servers and networking products, storage, mobility products, and software and peripherals. In addition, we offer a wide range of enhanced services. See Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Revenue by Product and Service Categories and Note 10 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data.

Desktop PCs Our customers can select from five lines of desktop computer systems. The OptiPlex™ line is designed to help business, government, and institutional customers manage their total cost of ownership by offering stability, security, and managed product transitions. The Dimension™ line is designed for small businesses and home users requiring the latest features for their productivity and entertainment needs. The XPS™ and Alienware lines are targeted at customers who require the highest performance gaming or entertainment experience available. In July 2007, we introduced the Vostro™ line, which is designed to provide technology and services to suit the specific needs of small businesses.

Dell Precision™ and Alienware MJ-12® workstations are intended for professional users who demand exceptional performance from hardware platforms optimized and certified to run sophisticated applications, such as three-dimensional computer-aided design, digital content creation, geographic information systems, computer animation, software development, computer-aided engineering, game development, and financial analysis.

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 aggressively priced tower servers for small organizations, networks, and remote offices.

Our PowerConnect™ switches connect computers and servers in small-to-medium-sized networks. PowerConnect™ products offer customers enterprise-class features and reliability at a low cost.

Storage We offer a comprehensive portfolio of 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 Dell &#124 EMC and Dell PowerVault™ storage systems helps organizations optimize storage for diverse environments with varied requirements.

Mobility The XPS™ and Alienware lines of notebook computers are targeted at customers who require the highest performance gaming or entertainment experience available. In Fiscal 2007, we introduced the XPS M2010, an innovative mobile platform featuring a 20-inch high definition display that received awards for its unique design. The Latitude[tm] line is designed to help business, government, and institutional customers manage their total cost of ownership through managed product lifecycles and the latest offerings in performance, security, and communications. The Inspiron[tm] line is targeted at

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consumers desiring the latest technology in a range of form factors to meet different usage needs. The new Vostro™ line, introduced in July 2007, is designed to customize technology, services, and expertise to suit the specific needs of small businesses.

Software and Peripherals We offer Dell-branded printers and displays and a multitude of competitively priced third-party peripheral products, including software titles, printers, televisions, notebook accessories, networking and wireless products, digital cameras, power adapters, scanners, and other products.

- *Software*. We 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.

- *Printers*. We offer a wide array of Dell-branded printers, ranging from ink-jet all-in-one printers for consumers to large multifunction devices for corporate workgroups. Our printer product line is focused on making printing easier to buy, own, and use. All of our printers feature the Dell Ink and Toner Management System™, which simplifies the purchasing process for supplies by displaying ink or toner levels on the status window during every print job and proactively prompting users to order replacement cartridges directly from Dell.

- *Displays.* We offer a broad line of branded and non-branded display products, including flat panel monitors and projectors. In Fiscal 2007, we continued our leadership position in the flat panel monitor category with the introductions of new Dell 22-, 24-, 27-, and 30-inch wide screens. The Dell projector line was expanded with the introductions of the 1200MP, 1800MP, and 2400MP projectors. We are no longer developing Dell-branded TV s and will continue to sell our current models through the end of Fiscal 2008. We have, however, introduced several third-party LCD TV offerings this year.

Enhanced Services Leveraging our experience and expertise in lowering the cost of hardware, providing industry leading value, and simplifying the ability of customers to acquire and maintain systems, our global services business offers a full range of flexible, tailored solutions that help customers lower the cost of their services environment and maximize system performance, efficiency, and return on investment.

- *Infrastructure Consulting Services.* We provide a customer-focused approach to designing and implementing non-proprietary standards-based infrastructures to enhance performance, scalability, and efficiency while helping to minimize expenses and disruption to business operations.

- *Deployment Services*. Our deployment services can simplify and accelerate the deployment and utilization of new systems in customers information technology environments. We offer scalable processes and technology to get our systems up and running quickly.

- *Asset Recovery and Recycling Services.* We offer capabilities for secure and environmentally safe recovery and disposal of owned and leased information technology equipment. Various options, including resale, recycling, donation, redeployment, employee purchase, and lease return, help customers retain value while avoiding regulatory fines and storage costs.

- *Training Services*. We help customers develop the skills that increase productivity with a comprehensive and flexible suite of training services. Courses include hardware and software training as well as PC skills and professional development classes available through instructor-led, virtual, or self-directed online courses. The courses are designed for all skill levels and range from personal finance to business productivity to IT certification.

- *Enterprise Support Services*. We help customers obtain maximum performance and availability from their server and storage systems. We operate Global Command Centers in the U.S., Ireland, China, Japan, and Malaysia to provide rapid, around-the-clock support for critical enterprise systems. Our enterprise support services include warranty services and provide proactive maintenance to help prevent problems as well as rapid response and resolution of problems when they do occur.

- *Client Support Services*. Our suite of scalable support services is designed for IT professionals and end-users whose needs range from basic phone support to rapid response and resolution of complex problems. We offer flexible levels of support that help keep desktop and notebook PCs up and running so customers remain productive.

- *Managed Lifecycle Services.* We offer a full suite of services for companies who need to outsource all or part of their IT management. From planning to deployment to ongoing technical support, we can deliver the services our customers need when they need them. Our Managed Lifecycle Services are modular in nature so that customers can customize a plan based on their current and future needs. We can manage a portion of their IT tasks or provide an end-to-end solution.

Financial Services

We offer various customer financial services for our business and consumer customers in the U.S. through Dell Financial Services L.P. (DFS), a joint venture between Dell and CIT Group, Inc. 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 Off-Balance Sheet Arrangements and Note 7 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data.

Sales and Marketing

We sell our products and services directly to customers through dedicated sales representatives, telephone-based sales, and online at www.dell.com. Our customers include large corporate, government, healthcare, and education accounts, as well as small-to-medium businesses and individual consumers. Within each of our geographic regions, we have divided our sales and marketing 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 and marketing efforts are organized around the needs, trends, and characteristics of our customers. Our direct business model provides direct and continuous feedback from customers, thereby allowing us to develop and 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 portion of our website called Dell IdeaStorm. This constant flow of communication, which is unique to our direct business model, also allows us to rapidly gauge customer satisfaction and target new or existing products.

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

We market our products and services to small-to-medium businesses and consumers primarily by advertising on television and the Internet, advertising in a variety of print media, and by mailing a broad range of direct marketing publications, such as promotional pieces, catalogs, and customer newsletters. In certain locations, we also operate Dell stores or kiosks, typically located within shopping centers, that allow customers to view our products in person and purchase online with the assistance of a Dell expert.

Although the focus of our business strategy is selling directly to customers, we also utilize some indirect sales channels when there is a business need. In the U.S. we sell products indirectly through third-party solution providers, system integrators, and third-party resellers. During Fiscal 2008, we began offering Dell

Dimension™ desktop computers and Inspiron™ notebook computers in retail stores in the Americas and announced partnerships with retailers in the U.K., Japan, and China. These actions represent the first steps in our retail strategy, which will allow us to extend our business model and reach customers that we have not been able to reach directly. Outside the U.S., we sell products indirectly through selected partners to benefit from the partner s existing customer relationships and valuable knowledge of traditional customs and logistics in the country, to mitigate credit and country risk, and because sales in some countries may be too small to warrant a direct sales business unit.

Competition

We face intense price and product feature competition from branded and generic competitors when selling our products and services. In addition to several large branded companies, there are other smaller branded and generic competitors. Historically, we competed primarily based on the customer value that a direct relationship can bring, technology, performance, customer service, quality, and reliability. Our general practice is to rapidly pass on cost declines to our customers to enhance customer value.

As a result of the intensely competitive environment during Fiscal 2007, as well as our decisions to de-emphasize lower priced, entry-level products, we lost 1.1 points of share during calendar 2006, finishing the year as the number two supplier of personal computer systems worldwide and the number one supplier in the U.S. This was principally the result of share loss in the U.S. Consumer segment.

We expect that the competitive pricing environment will continue to be challenging. However, we believe that the strength of our evolving business strategy and indirect distribution channels, as well as our strong liquidity position, makes us well positioned to continue profitable growth over the long term in any business climate. For consumers, we recognize the increasing importance of product ID, which is the appearance, ease of use, and ability to interact with peripheral products like cameras and MP3 players, and are focusing more resources on being competitive in this area.

Manufacturing and Materials

We manufacture most of the products we sell and have manufacturing locations worldwide to service our global customer base. See Part I Item 2 Properties for information about our manufacturing locations. We believe that our manufacturing processes and supply-chain management techniques provide us a distinct competitive advantage. Our build-to-order manufacturing process is designed to allow us to significantly reduce cost while simultaneously providing customers the ability to customize their product purchases.

Our manufacturing process consists of assembly, software installation, functional testing, and quality control. Testing and quality control processes are also applied to components, parts, and subassemblies obtained from third-party suppliers. Quality control is maintained through the testing of components, subassemblies, and systems at various stages in the manufacturing process. Quality control also includes a burn-in period for completed units after assembly, on-going 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, worldwide, by the International Standards Organization to the requirements of ISO 9001: 2000. This certification includes our design, manufacture, and service of computer products in all of our locations.

Although we manufacture most of our products, we have relationships with third-party original equipment manufacturers that build some of our products (such as printers and projectors) to our specifications. In addition, we are exploring the expanded use of original design manufacturing partnerships and manufacturing outsourcing relationships in order to deliver products faster and better serve our customers in certain segments and geographies.

We purchase materials, supplies, product components, and products from a large number of suppliers. In some cases, multiple sources of supply are not available and we have to rely on single source suppliers. 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 due to performance, quality, support, delivery, capacity, or price considerations. This relationship and dependency has not caused material disruptions in the past, and we believe that any disruptions that may occur because of our dependency on single- or limited-source suppliers 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-sourced suppliers.

Patents, Trademarks, and Licenses

As of October 12, 2007, we held a worldwide portfolio of 1,890 patents and had an additional 2,001 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 56 of our other marks in the U.S. At October 12, 2007, we had pending applications for registration of 31 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 mark and several other marks in approximately 195 other countries.

We have entered into a variety of intellectual property licensing and cross-licensing agreements. We have also entered into various software licensing agreements with a variety of other companies.

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.

Employees

At the end of Fiscal 2007, we had approximately 90,500 total employees (consisting of 82,200 regular employees, 7,200 temporary employees, and 1,100 DFS employees), compared to approximately 73,500 total employees (consisting of 65,200 regular employees, 7,200 temporary employees, and 1,100 DFS employees) at the end of Fiscal 2006. Approximately 29,100 of the regular employees at the end of Fiscal 2007 were located in the U.S., and approximately 53,100 were located in other countries. While our workforce located both inside and outside the U.S. continued to increase during Fiscal 2007, the proportion of our workforce located outside the U.S. increased due to a number of factors, including our rapid international growth. We have never experienced a work stoppage due to labor difficulties, and believe that our employee relations are good.

Workforce diversity is an essential part of our commitment to quality and the future of our company. In Fiscal 2006, we received the 2005 Secretary of Labor Opportunity Award, which is the highest award given by the Department of Labor to federal contractors for their voluntary diversity efforts. In addition, we rank number two on

DiversityBusiness.com s list of Top Organizations for Multicultural Business Opportunities of 2006, which represents the top 50 Fortune 500 companies that best promote multicultural business opportunities. We have also been recognized as one of the best places to work by the Human Rights Campaign.

On May 31, 2007, we announced that we had initiated a comprehensive review of costs across all processes and organizations, from product development and procurement through service and support delivery, with the goal to simplify structure, eliminate redundancies, and better align operating expenses with the current business environment and strategic growth opportunities. As part of this overall effort, we expect to reduce headcount and infrastructure costs over the next 12 months. Our management teams are presently finalizing transformation plans which include headcount and infrastructure cost reduction goals.

Government Regulation and Environment

Our business is subject to regulation by various federal and state 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 and Department of Justice, the consumer protection laws of the Federal Trade Commission, 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 environmental regulation by a variety of regulatory authorities in each of the areas in which we conduct business. We are also subject to regulation in other countries where we conduct business. We did not have any material environmental remediation or other environmental costs during Fiscal 2007.

Sustainability

Our focus on business efficiencies and customer satisfaction drives our environmental stewardship program in all areas of our business reducing product energy consumption, reducing or eliminating materials for disposal, prolonging product life spans, and providing effective and convenient equipment recovery solutions. During Fiscal 2007, we voluntarily initiated a no-charge recycling program for our U.S. customers. This recycling offer is designed for consumers and includes responsible recycling of used Dell-branded computers and peripheral equipment at no-charge; this service does not require a replacement purchase. Since November 2003, we have offered a no-charge recycling program for Dell-branded products in Europe and also currently offer no-charge consumer recycling in Canada. Since 2004, we have offered U.S. consumers no-charge recycling of any brand of used computer or printer with the purchase of a new Dell computer or printer. By the end of Fiscal 2007, we expanded both free recycling programs to additional countries, including Brazil, China, India, South Korea, Mexico, and Taiwan. Recycling services for consumers were either added or enhanced in Australia, Malaysia, New Zealand, Singapore, and Thailand. We are committed to making recycling free and easy and remain focused on raising consumer awareness about the importance of recycling and increasing the volume of products we recover from consumers.

Backlog

We believe that backlog is not a meaningful indicator of net revenue that can be expected for any period. There can be no assurance that the backlog at any point in time will translate into net revenue in any subsequent period, as unfilled orders can generally be canceled at any time by the customer. Our business model generally gives us flexibility to manage backlog at any point in time by expediting shipping or prioritizing customer orders toward products that have shorter lead times, thereby reducing backlog and increasing current period revenue. At the end of Fiscal 2007, 2006, and 2005, backlog was not material.

Geographic Areas of Operations

We conduct operations worldwide, and we manage our business in three geographic regions: the Americas, EMEA, and APJ. The Americas region, which is based in Round Rock, Texas, covers the U.S., Canada, and Latin America. Within the Americas, our business is further segmented into Americas Business and U.S. Consumer. The Americas

Business segment includes sales to corporate, government, healthcare, and education customers, while the U.S. Consumer segment includes sales primarily to individual consumers. The EMEA region, which is based in Bracknell, England, encompasses Europe, the

Middle East, and Africa. The APJ region, based in Singapore, covers the Asian countries of the Pacific Rim as well as Australia, New Zealand, and India.

We have invested in high growth countries such as China, India, and Brazil to design, manufacture, and support our customers, and we expect to continue our global expansion in the years ahead. Our investment in international growth opportunities contributed to an increase in non-U.S. revenue, as a percentage of consolidated net revenue, from 41% in Fiscal 2006 to 44% during Fiscal 2007, representing 10% year-over-year growth. 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. As a result, we plan to add additional resources to our offices in Singapore to better coordinate certain global activities, including the utilization of non-U.S. production capacity where most needed in light of product demand levels that vary by region. The expanded global operations in Singapore also coordinate product design and development efforts with procurement activities and sources of supply. We intend to continue to expand our global infrastructure as our international business continues to grow. For financial information about the results of our reportable operating segments for each of the last three fiscal years, see Note 10 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data.

Our corporate headquarters are located in Round Rock, Texas. Our manufacturing and distribution facilities are located in Austin, Texas; Winston-Salem, North Carolina; Lebanon and Nashville, Tennessee; West Chester, Ohio; Miami, Florida; El Dorado do Sul, Brazil; Limerick and Athlone, Ireland; Penang, Malaysia; and Xiamen, China. Manufacturing plants in Chennai, India opened in the first half of Fiscal 2008 and Lodz, Poland will open later in Fiscal 2008. See Part I Item 2 Properties.

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.

Available Information

We maintain an Internet website at www.dell.com. All of our reports filed with the U.S. Securities and Exchange Commission (SEC) (including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and Section 16 filings) are accessible through the Investor Relations section of our website at www.dell.com/investor, free of charge, as soon as reasonably practicable after electronic filing. The public may read and copy any materials that we file with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 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.

ITEM 1A RISK FACTORS

There are many risk factors that affect our business and results of operations, some 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 desire.

Declining general economic, business, or industry conditions may cause reduced net revenue. We are a global company with customers in virtually every business and industry. If the economic climate in the U.S. or abroad deteriorates, customers or potential customers could reduce or delay their technology investments, which could decrease our net revenue and profitability.

Failure to maintain a cost advantage may result in reduced market share, revenue, and profitability. Our success has historically been based on our ability to profitably offer products at a lower price than our competitors. However, we compete with many companies globally in all aspects of our business. Our profitability is also affected by our ability to negotiate favorable pricing with our vendors, including vendor rebates, marketing funds, and other vendor funding. 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. We cannot guarantee that we will be able to maintain our cost advantage if our competitors improve their cost structure or business model, if we are not able to negotiate favorable pricing or rebate arrangements with our vendors, or if our competitors take other actions that affect our current competitive advantage. An inability to maintain our cost advantage or determine alternative means to deliver value to our customers may adversely affect our market share, revenue, and profitability.

Our ability to generate substantial non-U.S. net revenue faces many additional risks and uncertainties. Sales outside the U.S. accounted for approximately 44% of our consolidated net revenue in Fiscal 2007. Our future growth rates and success are dependent on continued growth in international markets. Our international operations face many risks and uncertainties, including varied local economic and labor conditions, political instability, and unexpected changes in the regulatory environment, 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.

Our profitability may be affected by our product, customer, and geographic sales mix and by seasonal sales trends. Our profit margins vary among products, customers, and geographies. In addition, our business is subject to certain seasonal sales trends. For example, 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. As a result of these factors, our overall profitability for any particular period will be affected by the mix of products, customers, and geographies reflected in our sales for that period, as well as by seasonality trends.

Infrastructure failures could harm our business. We depend on our information technology and manufacturing infrastructure to achieve our business objectives. If a problem, such as a computer virus, intentional disruption by a third party, natural disaster, manufacturing failure, or telephone system failure impairs our infrastructure, we may be unable to book or process orders, manufacture, and ship in a timely manner or otherwise carry on our business. An infrastructure disruption could cause us to lose customers and revenue and could require us to incur significant expense to eliminate these problems and address related security concerns. The harm to our business could be even greater if it occurs during a period of disproportionately heavy demand.

Our failure to effectively manage a product transition could reduce the demand for our products and the profitability of our operations. Continuing improvements in technology mean frequent new product introductions, short product life cycles, and improvement in product performance characteristics. Product transitions present execution challenges and risks for any company. If we are unable to effectively manage a product transition, our business and results of operations could be unfavorably affected.

Disruptions in component availability could unfavorably affect our performance. Our direct business model, as well as our manufacturing and supply chain efficiencies, give us the ability to operate with reduced levels of component and finished goods inventories. Our financial success is partly due to our supply chain management practices, including our ability to achieve rapid inventory turns. Because we maintain minimal levels of component inventory, a disruption in component availability could harm our financial performance and our ability to satisfy customer needs.

Our reliance on suppliers creates risks and uncertainties. Our manufacturing process requires a high volume of quality components from third-party suppliers. Defective parts received from these suppliers could reduce product reliability and harm the reputation of our products. Reliance on suppliers subjects us to possible industry shortages of components and reduced control over delivery schedules (which can harm our manufacturing efficiencies), as well as increases in component costs (which can harm our profitability).

We could experience manufacturing interruptions, delays, or inefficiencies if we are unable to timely and reliably procure components from single-source or limited-source suppliers. We maintain several single-source or limited-source supplier relationships, either because multiple sources are not available or the relationship is advantageous due to performance, quality, support, delivery, capacity, or price considerations. If the supply of a critical single- or limited-source material 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 alternative suppliers and establishment of reliable supplies could result in delays and a possible loss of sales, which could harm operating results.

Our business is increasingly dependent on our ability to access the capital markets. We will increasingly rely upon access to the capital markets to fund financing for our customers and to provide sources of liquidity in the U.S. for general corporate purposes, including funding DFS growth. If we are unable to access the capital markets, we may not be able to fully fund customer financing opportunities or planned share repurchases without repatriation of foreign cash balances. See Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity, Capital Commitments, and Contractual Cash Obligations Liquidity. Although we believe that we will be able to maintain sufficient access to the capital markets, adverse changes in the economy, deterioration in our business performance, or changes in our credit ratings could limit our access to these markets.

We face risks relating to our ineffective internal controls. As a result of our review of issues identified during the recently completed independent Audit Committee investigation into certain accounting and financial reporting matters, as well as our internal review, management has identified several deficiencies in our control environment that constitute material weaknesses and, consequently, has concluded that our internal control over financial reporting was not effective at February 2, 2007. In addition, management has concluded, based primarily on the identification of the material weaknesses, that our disclosure controls and procedures were not effective at February 2, 2007. See Part II Item 9A Controls and Procedures. If we are unable to successfully remediate these material weaknesses in a timely manner, investors may lose confidence in our reported financial information, which 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.

Litigation and governmental investigations or proceedings arising out of or related to our recent accounting and financial reporting investigation could result in substantial costs. We could incur substantial costs to defend and resolve litigation or governmental investigations or proceedings arising out of or related to the recently completed Audit Committee investigation into certain accounting and financial reporting matters. See Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Audit Committee Independent Investigation and Restatement. In addition, we could be exposed to enforcement or other actions with respect to these matters by the SEC s Division of Enforcement or the U.S. Department of Justice. For a description of pending litigation and governmental proceedings and investigations see Part I Item 3 Legal Proceedings Investigations and Related Litigation.

The acquisition of other companies may present new risks. We recently began to pursue a targeted acquisition strategy designed to augment areas of our business. These acquisitions may involve significant new risks and uncertainties, including distraction of management attention away from our current business operations, insufficient new revenue to offset expenses, inadequate return of capital, integration challenges, new regulatory requirements, and unidentified issues not discovered in our due diligence process. No assurance can be given that such acquisitions will be successful and will not adversely affect our profitability or operations.

Failure to properly manage the distribution of our products and services may result in reduced revenue and profitability. We use a variety of distribution methods to sell our products and services, including directly to customers and through retail partners and third-party value-added resellers. Our inability to properly manage and balance these various distribution methods could harm our operating results.

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Failure to effectively hedge our exposure to fluctuations in foreign currency exchange rates and interest rates could unfavorably affect our performance. 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. Further, revenue from our international operations may decrease if we do not effectively hedge our exposure to currency fluctuations.

Our continued business success may depend on obtaining licenses to intellectual property developed by others on commercially reasonable and competitive terms. If we or our suppliers are unable to obtain desirable 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 legal actions, or pay damages. While our suppliers may be contractually obligated to indemnify us against such expenses, those suppliers could be unable to meet their obligations. Also, our operating costs could increase because of copyright levies or similar fees by rights holders and collection agencies in European and other countries. For a description of potential claims related to copyright levies, see Part I Item 3 Legal Proceedings Copyright Levies.

Our success depends on our ability to attract, retain, and motivate our key employees. We rely on key personnel to support anticipated continued rapid international growth and increasingly complex product and service offerings. There can be no assurance that we will be able to attract, retain, and motivate the key professional, technical, marketing, and staff resources we need, particularly in light of the reduction in the total number of equity shares granted to employees as part of their total compensation packages. New regulations and other factors could make it harder or more expensive for us to grant equity-based awards to employees in the future, putting us at a competitive disadvantage or forcing us to increase cash compensation.

Loss of government contracts could harm our business. Government contracts 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 government could suspend or disbar us as a contractor, which would unfavorably affect our net revenue and profitability.

The expiration of tax holidays or favorable tax rate structures could result in an increase of our effective 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 during Fiscal 2010 through Fiscal 2019. Many of these holidays may be extended when certain conditions are met. If they are not extended, then our effective tax rate could increase in the future. See Note 4 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data.

Current environmental laws, or laws enacted in the future, may harm our business. Our operations are subject to environmental 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 the materials composition of our electronics products, including restrictions on lead, cadmium, and other substances. On July 1, 2006, the European Union adopted the Restriction of Hazardous Substances Directive. The labeling provisions of similar legislation in China became effective on March 1, 2007. If we fail to comply with the rules and regulations regarding the use and sale of such regulated substances, we could be subject to liability. Beginning in August 2005, we became subject to the European Union Waste Electrical and Electronic Equipment Directive as enacted by individual member states of the European Union (WEEE Legislation). The WEEE Legislation makes producers of electrical goods, including computers and printers, responsible for collection, recycling, treatment, and disposal of recovered products. While we do not expect that the impact of these environmental laws and other similar legislation adopted in the U.S. and other countries will have a substantial unfavorable impact on our business, the costs and timing of costs under environmental laws are difficult to predict.

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

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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 delay and inefficiencies in our supply chain.

ITEM 1B UNRESOLVED STAFF COMMENTS

None.

ITEM 2 PROPERTIES

At February 2, 2007, we owned or leased a total of approximately 16 million square feet of office, manufacturing, and warehouse space worldwide, approximately 8 million square feet of which is located in the U.S. and the remainder located in other countries. We believe our 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.

Americas Properties

Description	Principal Locations	Owned (square feet)	Leased (square feet)
Headquarters	Round Rock, Texas	2.1 million	
Business Centers[a]	Canada Edmonton and Ottawa El Salvador San Salvador Oklahoma Oklahoma City Panama Panama City Tennessee Nashville Texas Austin and Round Rock	1.3 million	1.4 million
Manufacturing and Distribution	Brazil El Dorado do Sul Florida Miami (Alienware) North Carolina Winston-Salem Ohio West Chester Tennessee Lebanon and Nashville Texas Austin	2.5 million	1.0 million
Design Centers	Texas Austin and Round Rock	800,000	

EMEA Properties

Description	Principal Locations	Owned (square feet)	Leased (square feet)
Headquarters	Bracknell, England	100,000	50,000
Business Centers[a]		400,000	1.5 million

	England	Bracknell	
	France	Montpellier	
	Ireland	Dublin and Limerick	
	Morocco	Casablanca	
	Slovakia	Bratislava	
Manufacturing and Distribution	Ireland (Alienware)	Limerick and Athlone	400,000

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APJ Properties

Description	Principal Locations	Owned (square feet)	Leased (square feet)
Headquarters	Singapore		100,000
Business Centers[a]	China Dalian and Xiamen India Bangalore, Gurgaon, Hyderabad and Mohali Japan Kawasaki Malaysia Penang Philippines Pasay	200,000	3.1 million
Manufacturing and Distribution	China Xiamen Malaysia Penang	1.0 million	
Design Centers	China Shanghai India Bangalore Singapore Taiwan Taipei		150,000

(a) Business center locations include facilities with capacity greater than 1,000 people. Operations within these centers include sales, technical support, administrative, and support functions. Locations of smaller business centers are not listed; however, the smaller centers are included in the square footage.

We currently have approximately 750,000 square feet of manufacturing and business center space under construction. The manufacturing plants constructed in Hortolandia, Brazil, and Chennai, India opened in the first half of Fiscal 2008 and our manufacturing plant in Lodz, Poland is expected to begin operations later this year. Our business centers located in Quezon City, Philippines and Kuala Lumpur, Malaysia also opened in the first half of Fiscal 2008, while a second building in Ottawa, Canada is expected to begin operations in Fiscal 2008. Additionally, we recently completed an expansion of a design center in India.

In general, our Americas, EMEA, and APJ regions use properties within their geographies. However, business centers in the Philippines and India, which house sales, customer care, technical support, and administrative support functions, are used by each of our geographic regions.

ITEM 3 LEGAL PROCEEDINGS

We are involved in various claims, suits, investigations, and legal proceedings that arise from time to time in the ordinary course of our business. As required by Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*, we accrue a liability when we believe that it is both probable that a liability has been incurred and we can reasonably estimate the amount of the loss. The following is a discussion of our significant legal matters.

Investigations and Related Litigation

In August 2005, the U.S. Securities and Exchange Commission (SEC) initiated an inquiry into certain of our accounting and financial reporting matters and requested that we provide certain documents. The SEC expanded that inquiry in June 2006 and entered a formal order of investigation in October 2006. The SEC s requests for information were joined by a similar request from the United States Attorney for the Southern District of New York (SDNY), who subpoenaed documents related to our financial reporting from and after 2002. In August 2006, because of potential issues identified in the course of responding to the SEC s requests for information, our Audit Committee, on the recommendation of management and in consultation with PricewaterhouseCoopers LLP, initiated an independent investigation, which was recently completed. For information regarding the Audit Committee s investigation, the accounting errors and irregularities identified, and the restatement adjustments, see Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Audit Committee Independent Investigation and Restatement and Note 2 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data. For a description of the control deficiencies identified by management as a result of the investigation and our internal reviews, and management s plan to remediate those deficiencies, see Part II Item 9A Controls and Procedures. Although the Audit Committee investigation has been completed, the investigations being conducted by the SEC and the SDNY are ongoing. We continue to cooperate with the SEC and the SDNY.

Dell and several of our current and former directors and officers are parties to securities, Employee Retirement Income Security Act of 1974 (ERISA), and shareholder derivative lawsuits all arising out of the same events and facts. Four putative securities class actions that were filed in the Western District of Texas, Austin Division, against Dell and certain of our current and former officers have been consolidated as *In re Dell Inc. Securities Litigation*, and a lead plaintiff has been appointed by the court. The lead plaintiff has asserted claims under sections 10(b), 20(a), and 20A of the Securities Exchange Act of 1934 based on alleged false and misleading disclosures or omissions regarding our financial statements, governmental investigations, known battery problems, business model, and insiders sales of our securities. This action also includes our independent registered public accounting firm, PricewaterhouseCoopers LLP, as a defendant. Four other putative class actions that were also filed in the Western District by purported participants in the Dell Inc. 401(k) Plan have been consolidated as *In re Dell Inc. ERISA Litigation*, and lead plaintiffs have been appointed by the court. The lead plaintiffs have asserted claims under ERISA based on allegations that Dell, certain current officers, and certain current and former directors imprudently invested and managed participants funds and failed to disclose information regarding our stock held in the 401(k) Plan. In addition, seven shareholder derivative lawsuits that were filed in three separate jurisdictions (the Western District of Texas, Austin Division; the Delaware Chancery Court; and the state district court in Travis County, Texas) have been consolidated into three actions, one in each of the respective jurisdictions, as *In re Dell Inc. Derivative Litigation,* and name various current and former officers and directors as defendants and Dell as a nominal defendant. On October 8, 2007, the shareholder derivative lawsuit filed in the Western District of Texas was dismissed without prejudice by the court. The Travis County, Texas action has been transferred to the state district court in Williamson County, Texas. The shareholder derivative lawsuits assert claims derivatively on behalf of Dell under state law, including breaches of fiduciary duties. Finally, one purported shareholder has filed an action against us in Delaware Chancery Court under Section 220 of the Delaware General Corporation Law, *Baltimore County Employees Retirement System v. Dell Inc.,* seeking inspection of certain of our books and records related to the internal investigation and government investigations. We intend to defend all of these lawsuits vigorously.

Copyright Levies

Proceedings against the IT industry in Germany seek to impose levies on equipment, such as personal computers, multifunction devices, and printers that facilitate making private copies of copyrighted materials. The total levies due, if imposed, would be based on the number of products sold and the per-product amounts of the levies, which vary. We, along with other companies and various industry associations, are opposing these levies and instead are advocating compensation to rights holders through digital rights management systems.

There are currently three levy cases involving other equipment manufacturers pending before the German Federal Supreme Court. Adverse decisions in these cases could ultimately impact us. The cases involve personal computers, printers, and multifunctional devices. The equipment manufacturers in these cases recently lost in the lower courts and have appealed. The amount allowed by the lower courts with respect to PCs is 12 per personal computer sold, for reprographic copying capabilities. The amounts claimed with respect to printers and multifunctional devices depend on speed and color and vary between 10 and 300 for printers and between 38 and 600 for multifunctional devices. On December 29, 2005, Zentralstelle Für private Überspielungsrechte (ZPÜ), a joint association of various German collection societies, instituted arbitration proceedings against our German subsidiary before the Arbitration Body in Munich. ZPÜ claims a levy of 18.4 per PC that we sold in Germany from January 1, 2002 through December 31, 2005. On July 31, 2007, the Arbitration Body recommended a levy of 15 on each PC sold during that period, for audio and visual copying capabilities. Dell and ZPÜ rejected the recommendation and we expect that the matter will proceed to court. We will continue to defend this claim vigorously.

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Lucent v. Dell

In February 2003, Lucent Technologies, Inc. filed a lawsuit against us in the United States District Court for Delaware, and the lawsuit was subsequently transferred to the United States District Court for the Southern District of California. The lawsuit alleges that we infringed 12 patents owned by Lucent and seeks monetary damages and injunctive relief. In April 2003, Microsoft Corporation filed a declaratory judgment action against Lucent in the United States District Court for the Southern District of California, asserting that Microsoft products do not infringe patents held by Lucent, including 10 of the 12 patents at issue in the lawsuit involving us and Microsoft. These actions were consolidated for discovery purposes with a previous suit that Lucent filed against Gateway, Inc. In September 2005, the court granted a summary judgment of invalidity with respect to one of the Lucent patents asserted against us. In addition, in decisions made through May 2007, the court granted summary judgment of non-infringement with respect to five more of the Lucent patents asserted against us. The court has ordered invalidity briefing with regard to other patents at issue in view of the April 30, 2007, U.S. Supreme Court decision in *KSR v. Teleflex*. Fact and expert discovery has closed, and the three actions have been consolidated. Trial is scheduled to begin in February 2008. We are defending these claims vigorously. Separately, we have filed a lawsuit against Lucent in the United District Court for the Eastern District of Texas, alleging that Lucent infringes two patents owned by us and seeking monetary damages and injunctive relief. That litigation is pending and discovery is proceeding.

Sales Tax Claims

Several state and local taxing jurisdictions have asserted claims against Dell Catalog Sales L.P. (DCSLP), an indirect wholly-owned subsidiary of ours, alleging that DCSLP had an obligation to collect tax on sales made into those jurisdictions because of its alleged nexus, or physical presence, in those jurisdictions. During the first and second quarter of Fiscal 2008, we settled suits filed by the State of Louisiana and the Secretary of the Louisiana Department of Revenue and Taxation in the 19th Judicial District Court of the State of Louisiana, and by two Louisiana parishes, Orleans Parish and Jefferson Parish, in the State of Louisiana 24th Judicial District Court. We also settled similar claims made by a number of other Louisiana parishes and by the State of Massachusetts. These settlement amounts did not have a material adverse effect on our financial condition, results of operations, or cash flows. While there are ongoing claims by certain other state and local taxing authorities, DCSLP disputes the allegation that it had nexus in any of these other jurisdictions during the periods in issue, and is defending the claims vigorously. We do not expect that the outcome of these other claims, individually or collectively, will have a material adverse effect on our financial condition, results of operations, or cash flows.

We are involved in various other claims, suits, investigations, and legal proceedings that arise from time to time in the ordinary course of our business. Although we do not expect that the outcome in any of these other legal proceedings, individually or collectively, will have a material adverse effect on our financial condition or results of operations, litigation is inherently unpredictable. Therefore, we could incur judgments or enter into settlements of claims that could adversely affect our operating results or cash flows in a particular period.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of our stockholders, through the solicitation of proxies or otherwise, during the fourth quarter of Fiscal 2007.

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PART II

ITEM 5 MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed on The NASDAQ Stock Market under the symbol DELL. Information regarding the market prices of our common stock may be found in Note 12 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data.

On September 15, 2006, we received a NASDAQ Staff Determination letter indicating that we were not in compliance with NASDAQ s requirements for continued listing because of our inability to timely file our quarterly report on Form 10-Q for the second quarter of Fiscal 2007. We received similar letters relating to our inability to timely file subsequent periodic reports. Following receipt of the September 15, 2006 letter, we have been involved in a hearing and review process before several adjudicative bodies appointed by NASDAQ. That process is ongoing, and any action to delist our common stock has stayed pending completion of that process. We believe, with the filing of this Form 10-K and the Form 10-Q s for Fiscal 2007 and the first and second quarters of Fiscal 2008, that we will achieve compliance with NASDAQ s continued listing requirements, and we expect that NASDAQ will send us an acknowledgement to that effect in the near future.

Holders

At October 1, 2007, there were 30,630 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.

Issuance of Unregistered Securities

Internal Restructuring

We have modified the corporate organizational structure of certain of our subsidiaries to achieve more integrated global operations and to provide various financial, operational, and tax efficiencies. In connection with this internal restructuring, on December 28, 2006 we issued approximately 475 million shares of our common stock valued at $12.0 billion based on the closing price on The NASDAQ Stock Market on that date, to a wholly-owned subsidiary in return for an equivalent value in equity interests in the subsidiary. As part of the restructuring, the subsidiary used these shares to acquire a controlling interest in another wholly-owned subsidiary. Because all the shares issued as part of this restructuring are held by one or more of our wholly-owned subsidiaries, the shares are not considered outstanding in our consolidated financial statements or for voting purposes. We continue to be the ultimate beneficial owner of all subsidiaries involved in the internal restructuring.

These shares have not been registered under the Securities Act of 1933, as amended, and were issued in a transaction not involving a public offering pursuant to the exemption under Section 4(2) of the Securities Act. The shares may not be resold absent registration or an applicable exemption from the registration requirements under the Securities Act or other applicable law.

Certain Employee Benefit Plan Securities

As a result of our inability to file our Annual Report on Form 10-K for Fiscal 2007 on its due date (April 3, 2007), we suspended our sale of Dell securities under our various employee benefit plans. In preparing for that suspension, we discovered that we had inadvertently failed to file with the SEC certain registration statements relating to securities under the plans.

Employee Stock Purchase Plan We maintain an Employee Stock Purchase Plan that is available to substantially all our employees worldwide. In 1994, stockholders approved additional shares for issuance under our Employee Stock Purchase Plan. We recently discovered that the issuance of these additional shares was never registered. Consequently, we have inadvertently issued approximately 54 million unregistered shares under this plan since 1996.

Retirement Plans We maintain a 401(k) retirement savings plan that is available to substantially all of our U.S. employees and a separate retirement plan that is available to our employees in Canada. Both of those plans contain a Dell Stock Fund, and both plans allow participants to allocate some or all of their account balances to interests in the Dell Stock Fund. The Dell common stock held in the Dell Stock Funds is not purchased from Dell; rather, the plan trustees accumulate the plan contributions that are directed to the Dell Stock Funds and purchase for the Dell Stock Funds shares of Dell common stock in open market transactions. Nevertheless, because we sponsor the plans, we are required to register certain transactions in the plans related to shares of Dell common stock. We recently discovered that we may be deemed to have been required to file a Form S-8 in July 2003 to register additional share transactions in the 401(k) Plan, and we should have filed a Form S-8 to register share transactions in the Canada retirement plan in 1999. Consequently, we may be deemed to have inadvertently failed to register transactions in the two plans relating to up to approximately 37 million shares.

We intend to file registration statements on Form S-8 to register future transactions in these plans as soon as practicable. Nonetheless, we may be subject to civil and other penalties by regulatory authorities as a result of the failure to register. We have implemented monitoring and reporting procedures to ensure that in the future we timely meet our registration obligations with respect to these and other employee benefit plans.

The failure to file registration statements noted above was inadvertent, and we have always treated the shares issued under the Employee Stock Purchase Plan or held in the Dell Stock Funds under the retirement plans as outstanding for financial reporting purposes. Consequently, these unregistered transactions do not represent any additional dilution. We believe that we have always provided the employee-participants in these plans with the same information they would have received had the registration statements been filed. The outstanding shares subject to potential rescission rights are reflected as redeemable common stock on our Consolidated Statement of Financial Position.

Purchases of Common Stock

Cash Payments for Certain Employee Stock Options

As a result of our inability to timely file our Annual Report on Form 10-K for Fiscal 2007, we suspended the exercise of employee stock options. As a result, stock options held by current and former employees expired while the holders had no ability to exercise them or otherwise prevent their expiration. Therefore, we agreed to pay cash to certain current and former employees who held in-the-money stock options that expired during the period of unexercisability.

If an in-the-money stock option expired during the period in which it was not exercisable because of our filing delinquency, we will pay to the holder in cash an amount of up to the difference between the calculated value of the option and its exercise price. For this purpose, the calculated value is equal to the average closing price of Dell common stock during the week immediately preceding the week in which the expiration date occurred. Payment will be made within 45 days after the date this report is filed, so long as the holder has executed an agreement providing for a release of any claims the holder may have against us and obligating the holder to return the cash to us if the holder, while employed by us or within one year following receipt of the payment, engages in certain conduct that is detrimental to us (such as serious misconduct or breach of confidentiality, non-competition or non-solicitation obligations). Cash payments related to stock options that expired in the second and third quarters of Fiscal 2008 will be paid to

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approximately 1,100 current and former employees, including certain executive and former executive officers, and are expected to total approximately $113 million.

Share Repurchase Program

We have a share repurchase program that authorizes us to purchase shares of common stock in order to increase shareholder value and manage dilution resulting from shares issued under our equity compensation plans. However, we do not currently have a policy that requires the repurchase of common stock in conjunction with share-based payment arrangements. As of February 2, 2007, our share repurchase program authorized the purchase of shares of common stock at an aggregate cost not to exceed $30.0 billion, and through that date, $28.6 billion had been spent to repurchase shares. We suspended our share repurchase program in September 2006 pending completion of the Audit Committee investigation. During the fourth quarter of Fiscal 2007, no shares were repurchased under this program; however, shares were withheld from certain employees to pay taxes and fees associated with the employees exercise of stock options or the vesting of restricted stock. The following table sets forth information regarding our repurchases or acquisitions of common stock during the fourth quarter of Fiscal 2007:

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares that May Yet Be Repurchased Under the Announced Plan[(b)] (in millions)
Repurchases from November 4, 2006 through December 1, 2006		N/A		$ 1,415
Repurchases from December 2, 2006 through December 29, 2006	870(a)	$ 25.72		$ 1,415
Repurchases from December 30, 2006 through February 2, 2007		N/A		$ 1,415
Total	870	$ 25.72		

(a) These shares were not purchased pursuant to our share repurchase program, but were withheld from employees upon the exercise of stock options or the vesting of restricted stock in order to pay the exercise price and required tax withholding.

(b) Our share repurchase program was announced on February 20, 1996, and the program authorizes us to purchase shares at an aggregate cost not to exceed $30.0 billion.

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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 Computer 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 1, 2002, and assumes the reinvestment of all dividends. The graph depicts the change in the value of 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.

	End of Fiscal Year					
	2002	**2003**	**2004**	**2005**	**2006**	**2007**
Dell	$ 100	$ 89	$ 125	$ 153	$ 109	$ 88
S&P 500 Index	100	76	101	104	113	129
Dow Jones Computer Index	100	69	96	101	115	131

ITEM 6 SELECTED FINANCIAL DATA

We have restated the selected financial data presented in this report as of February 3, 2006, January 28, 2005, January 30, 2004, and January 31, 2003, for the fiscal years ended on those dates, and for the first quarter of Fiscal 2007. The restatement reflects the results of the independent investigation by the Audit Committee, as well as other adjustments identified by management.

This Part II Item 6 Selected Financial Data, includes the following:

The restated selected financial data for the annual periods described above;

The annual financial data for the year ended February 2, 2007;

Restated quarterly selected financial data for those years being restated; and

Schedules presenting details of the nature and impact of the restatement adjustments. Additional information regarding these adjustments can be found in Note 2 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data. The adjustments that relate to fiscal years prior to Fiscal 2003 are reflected in beginning retained earnings for Fiscal 2003. The cumulative impact of these adjusting entries increased retained earnings by $59 million, net of tax, at the beginning of Fiscal 2003.

The following balance sheet data as of February 2, 2007 and February 3, 2006, and results of operations for the fiscal years ended February 2, 2007, February 3, 2006 and January 28, 2005 are derived from our audited financial statements included in Part II Item 8 Financial Statements and Supplementary Data. The data for the remaining periods is derived from our unaudited financial statements for the respective periods.

In addition to the adjustments described in Note 2 of Notes to Consolidated Financial Statements, there were errors and irregularities identified with respect to certain restructuring charges that we recorded in the fourth quarter of Fiscal 2001 and the second quarter of Fiscal 2002 that have been corrected in these selected financial data tables. It was determined that components of certain charges were not approved and finalized in a timely fashion in order for them to be properly included in the charges, certain items in the charges should have been accrued for in a different period, and in some cases, ineligible items were included in the restructuring charges. Additionally, on some occasions, once excess restructuring charge amounts were identified, the excess amounts were not released to the income statement in a timely fashion, or with appropriate disclosures. The necessary adjustments to correct these errors and irregularities are included in the beginning retained earnings adjustment and restatement adjustments.

Selected Financial Data

The following table 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.

	Fiscal Year Ended								
	February 2, 2007	**February 3, 2006(c)**		**January 28, 2005(d)**		**January 30, 2004**		**January 31, 2003(e)**	
		As Reported	**As Restated**	**As Reported**	**As Restated**	**As Reported**	**As Restated**	**As Reported**	**As Restate**
	(in millions, except per share data)								
sults of Operations:									
t revenue	$ 57,420	$ 55,908	$ 55,788	$ 49,205	$ 49,121	$ 41,444	$ 41,327	$ 35,404	$ 35,26
oss margin	$ 9,516	$ 9,950	$ 9,891	$ 9,015	$ 9,018	$ 7,552	$ 7,563	$ 6,349	$ 6,43
erating income	$ 3,070	$ 4,347	$ 4,382	$ 4,254	$ 4,206	$ 3,544	$ 3,525	$ 2,844	$ 2,73
come before income es	$ 3,345	$ 4,574	$ 4,608	$ 4,445	$ 4,403	$ 3,724	$ 3,711	$ 3,027	$ 2,90
t income	$ 2,583	$ 3,572	$ 3,602	$ 3,043	$ 3,018	$ 2,645	$ 2,625	$ 2,122	$ 2,03
rnings per common re:									
sic	$ 1.15	$ 1.49	$ 1.50	$ 1.21	$ 1.20	$ 1.03	$ 1.02	$ 0.82	$ 0.7
uted	$ 1.14	$ 1.46	$ 1.47	$ 1.18	$ 1.18	$ 1.01	$ 1.00	$ 0.80	$ 0.7
mber of ighted-average shares tstanding:									
sic	2,255	2,403	2,403	2,509	2,509	2,565	2,565	2,584	2,58
uted	2,271	2,449	2,449	2,568	2,568	2,619	2,619	2,644	2,64
sh Flow & Balance eet Data:									

t cash provided by erating ivities[f]	$ 3,969	$ 4,839	$ 4,751	$ 5,310	$ 5,821	$ 3,670	$ 4,064	$ 3,538	$ 3,90
sh, cash equivalents d investments	$ 12,445	$ 11,749	$ 11,756	$ 14,101	$ 14,101	$ 11,922	$ 11,921	$ 9,905	$ 9,91
tal assets	$ 25,635	$ 23,109	$ 23,252	$ 23,215	$ 23,318	$ 19,311	$ 19,340	$ 15,470	$ 15,54
ort-term borrowings[a]	$ 188	$	$ 65	$	$ 74	$	$ 157	$	$ 12
ng-term debt[b]	$ 569	$ 504	$ 625	$ 505	$ 662	$ 505	$ 645	$ 506	$ 58
tal stockholders equity	$ 4,328	$ 4,129	$ 4,047	$ 6,485	$ 6,412	$ 6,280	$ 6,238	$ 4,873	$ 4,84

(a) The restated amounts for short-term borrowings reflect (1) a correction in classification from accounts payable regarding a vendor financing arrangement during Fiscal 2002 until termination in the first quarter of Fiscal 2006, and (2) a correction in classification from other current liabilities for the short-term portion of outstanding advances under the DFS Credit Facilities for the periods from the third quarter of Fiscal 2004 through Fiscal 2007.

(b) The restated amounts for long-term debt reflect (1) adjustments to record changes in the fair value of the debt where the interest rate is hedged with interest rate swap agreements for all periods restated and (2) a correction in classification from both other current liabilities and other non-current liabilities related to the long-term portion of outstanding advances under the DFS Credit Facilities for the periods from the third quarter of Fiscal 2004 through Fiscal 2007.

(c) Results for Fiscal 2006 include charges aggregating $421 million ($338 million of other product charges and $83 million in selling, general and administrative expenses) related to the cost of servicing or replacing certain OptiPlex[tm] systems that include a vendor part that failed to perform to our specifications, workforce realignment, product rationalizations, excess facilities, and a write-off of goodwill recognized in the third quarter. The related tax effect of these items was $96 million. Fiscal 2006 also includes an $85 million income tax benefit related to a revised estimate of taxes on the repatriation of earnings under the American Jobs Creation Act of 2004 recognized in the second quarter.

(d) Results for Fiscal 2005 include an income tax charge of $280 million related to the repatriation of earnings under the American Jobs Creation Act of 2004 recorded in the fourth quarter.

(e) The adjustments relating to fiscal years prior to Fiscal 2003 are reflected in beginning retained earnings. The cumulative impact of these adjusting entries increased beginning retained earnings by $59 million, net of tax.

(f) The cash flows have been revised to reflect a closer approximation of the weighted-average exchange rates during the reporting periods. For most periods, this revision reduced the previously reported effect of exchange rate changes on cash and cash equivalents with an offsetting change in effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies and changes in operating working capital included in cash flows from operating activities.

Cumulative Restatement Adjustments to Previously Reported Retained Earnings

The following tables present the impact of the restatement adjustments on previously reported retained earnings for Fiscal 2006, Fiscal 2005, Fiscal 2004 and Fiscal 2003. See Note 2 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data for further discussion of the restatement.

	February 3, 2006	January 28, 2005	January 30, 2004	January 31, 2003
	(in millions)			
Retained earnings as reported	$ 12,746	$ 9,174	$ 6,131	$ 3,486
Cumulative restatement adjustments	(47)	(77)	(52)	(32)[(a)]
Retained earnings as restated	$ 12,699	$ 9,097	$ 6,079	$ 3,454

(a) Includes a $59 million increase in beginning retained earnings at January 31, 2003 for the pre- Fiscal 2003 cumulative impact of the adjustments.

Cumulative Restatement Adjustments to Previously Reported Beginning Retained Earnings and Net Income

	February 3, 2006	January 28, 2005	January 30, 2004	January 31, 2003
		(in millions)		
Retained earnings as restated:				
Beginning retained earnings as reported	$ 9,174	$ 6,131	$ 3,486	$ 1,364
Cumulative adjustments to beginning retained earnings	(77)	(52)	(32)	59
Beginning retained earnings as restated	9,097	6,079	3,454	1,423
Net income as reported	3,572	3,043	2,645	2,122
Net income restatement adjustments	30	(25)	(20)	(91)
Net income as restated	3,602	3,018	2,625	2,031
Retained earnings as restated	$ 12,699	$ 9,097	$ 6,079	$ 3,454

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Cumulative Restatement Adjustments to Previously Reported Beginning Retained Earnings by Category

The following table presents the impact of the restatement adjustments on previously reported beginning retained earnings for Fiscal 2006, Fiscal 2005, Fiscal 2004, and Fiscal 2003, with the adjustments broken down by the nature of the error. See Note 2 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data for further discussion of the restatement.

	February 3, 2006	January 28, 2005	January 30, 2004	January 31, 2003
		(in millions)		
Beginning retained earnings as reported	$ 9,174	$ 6,131	$ 3,486	$ 1,364
Revenue Recognition:				
Software	(21)	(9)	(7)	(2)
Other	(216)	(217)	(102)	(64)
Revenue Recognition	(237)	(226)	(109)	(66)
Warranty Liabilities	202	223	129	31
Restructuring Reserves	(18)	(18)	(14)	80
Other	(45)	(35)	(49)	32
(Provision) benefit for income taxes	21	4	11	(18)
Cumulative adjustments to beginning retained earnings	(77)	(52)	(32)	59
Beginning retained earnings as restated	$ 9,097	$ 6,079	$ 3,454	$ 1,423

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Impact of Restatement Adjustments on Fiscal 2006 Net Income

The following table presents the impact of the restatement adjustments on our Consolidated Statement of Income for the fiscal year ended February 3, 2006:

	Fiscal 2006							
		Adjustments						
		Revenue recognition						
	As Reported	Software sales	Other	Warranty liabilities	Restruc- turing	Other reserves and accruals	Provision for income tax[a]	As Restated
	(in millions, except per share data)							
Net revenue	$ 55,908	$ (248)	$ 130	$	$	$ (2)	$	$ 55,788
Cost of net revenue	45,958	(244)	124	52		7		45,897
Gross margin	9,950	(4)	6	(52)		(9)		9,891
Operating expenses:								
Selling, general, and administrative	5,140		1			(90)		5,051
Research, development, and engineering	463			(1)		(4)		458
Total operating expenses	5,603		1	(1)		(94)		5,509
Operating income	4,347	(4)	5	(51)		85		4,382
Investment and other income, net	227		11	(4)		(8)		226
Income before income taxes	4,574	(4)	16	(55)		77		4,608
Income tax provision	1,002						4	1,006
Net income	$ 3,572							$ 3,602
Earnings per common share:								
Basic	$ 1.49							$ 1.50
Diluted	$ 1.46							$ 1.47
Weighted-average shares outstanding:								
Basic	2,403							2,403
Diluted	2,449							2,449

(a) Primarily represents the aggregate tax impact of the adjustments.

Impact of Restatement Adjustments on Fiscal 2006 Quarterly Financial Data

The following tables present selected quarterly financial data for Fiscal 2006:

	First Quarter April 29, 2005			Second Quarter[c] July 29, 2005		
Fiscal 2006	**As Reported**	**Adjustments**	**As Restated**	**As Reported**	**Adjustments**	**As Restated**
	(in millions, expect per share data)					
Results of Operations:						
Net revenue	$ 13,386	$ (86)	$ 13,300	$ 13,428	$ (46)	$ 13,382
Gross margin	$ 2,491	$ (39)	$ 2,452	$ 2,499	$ (68)	$ 2,431
Operating income	$ 1,174	$ (37)	$ 1,137	$ 1,173	$ (60)	$ 1,113
Income before income taxes	$ 1,233	$ (45)	$ 1,188	$ 1,234	$ (47)	$ 1,187
Net income	$ 934	$ (26)	$ 908	$ 1,020	$ (38)	$ 982
Earnings per common share:						
Basic	$ 0.38	$ (0.01)	$ 0.37	$ 0.42	$ (0.01)	$ 0.41
Diluted	$ 0.37	$ (0.01)	$ 0.36	$ 0.41	$ (0.01)	$ 0.40
Number of weighted-average shares outstanding:						
Basic	2,456		2,456	2,418		2,418
Diluted	2,515		2,515	2,478		2,478
Cash Flow and Balance Sheet Data:						
Net cash provided by operating activities[d]	$ 1,190	$ 84	$ 1,274	$ 919	$ (58)	$ 861
Cash, cash equivalents and investments	$ 13,374	$ 4	$ 13,378	$ 12,624	$ 6	$ 12,630
Total assets	$ 22,687	$ 82	$ 22,769	$ 22,611	$ 107	$ 22,718
Short-term borrowings[a]	$	$ 81	$ 81	$	$ 77	$ 77
Long-term debt[b]	$ 504	$ 140	$ 644	$ 504	$ 135	$ 639
Total stockholders equity	$ 5,624	$ (100)	$ 5,524	$ 5,509	$ (144)	$ 5,365

	Third Quarter[c] October 28, 2005			Fourth Quarter February 3, 2006		
Fiscal 2006	**As Reported**	**Adjustments**	**As Restated**	**As Reported**	**Adjustments**	**As Restated**
	(in millions, expect per share data)					
Results of Operations:						
Net revenue	$ 13,911	$ (31)	$ 13,880	$ 15,183	$ 43	$ 15,226
Gross margin	$ 2,251	$ 14	$ 2,265	$ 2,709	$ 34	$ 2,743
Operating income	$ 754	$ 38	$ 792	$ 1,246	$ 94	$ 1,340
Income before income taxes	$ 804	$ 39	$ 843	$ 1,303	$ 87	$ 1,390
Net income	$ 606	$ 29	$ 635	$ 1,012	$ 65	$ 1,077

Earnings per common share:						
Basic	$ 0.25	$ 0.02	$ 0.27	$ 0.43	$ 0.03	$ 0.46
Diluted	$ 0.25	$ 0.01	$ 0.26	$ 0.43	$ 0.02	$ 0.45
Number of weighted-average shares outstanding:						
Basic	2,395		2,395	2,350		2,350
Diluted	2,435		2,435	2,375		2,375
Cash Flow and Balance Sheet Data:						
Net cash provided by operating activities[d]	$ 1,148	$ (42)	$ 1,106	$ 1,582	$ (72)	$ 1,510
Cash, cash equivalents and investments	$ 12,233	$ 4	$ 12,237	$ 11,749	$ 7	$ 11,756
Total assets	$ 22,874	$ 163	$ 23,037	$ 23,109	$ 143	$ 23,252
Short-term borrowings[a]	$	$ 74	$ 74	$	$ 65	$ 65
Long-term debt[b]	$ 504	$ 113	$ 617	$ 504	$ 121	$ 625
Total stockholders equity	$ 4,821	$ (113)	$ 4,708	$ 4,129	$ (82)	$ 4,047

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(a) The restated amounts for short-term borrowings reflect (1) a correction in classification from accounts payable for vendor financing for the periods from the end of Fiscal 2002 until termination in the first quarter of Fiscal 2006, and (2) a correction in classification from other current liabilities for the short-term portion of outstanding advances under the DFS Credit Facilities for the periods from the third quarter of Fiscal 2004 through Fiscal 2007.

(b) The restated amounts for long-term debt reflect (1) adjustments to record changes in the fair value of the debt where the interest rate is hedged with interest rate swap agreements for all periods restated and (2) a correction in classification from both other current liabilities and other non-current liabilities related to the long-term portion of outstanding advances under the DFS Credit Facilities for the periods from the third quarter of Fiscal 2004 through Fiscal 2007.

(c) Results for the third quarter of Fiscal 2006 include charges aggregating $421 million ($338 million of other product charges and $83 million in selling, general and administrative expenses) related to the cost of servicing or replacing certain OptiPlex™ systems that include a vendor part that failed to perform to our specifications, workforce realignment, product rationalizations, excess facilities, and a write-off of goodwill recognized in the third quarter. The related tax effect of these items was $96 million. The second quarter of Fiscal 2006 includes an $85 million income tax benefit related to a revised estimate of taxes on the repatriation of earnings under the American Jobs Creation Act of 2004 recognized in the second quarter.

(d) The cash flows have been revised to reflect a closer approximation of the weighted-average exchange rates during the reporting periods. For most periods, this revision reduced the previously reported effect of exchange rate changes on cash and cash equivalents with an offsetting change in effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies and changes in operating working capital included in cash flows from operating activities.

Fiscal 2006 Restatement Adjustments to Previously Reported Net Income

The following table presents the impact of the restatement on our previously reported net income for each quarter of Fiscal 2006. See Note 2 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data for further discussion of the restatement.

Fiscal 2006 (As Restated)	**First Quarter April 29, 2005**	**Second Quarter July 29, 2005**	**Third Quarter October 28, 2005**	**Fourth Quarter February 3, 2006**	**Fiscal Year February 3, 2006**
			(in millions)		
Net income as reported	$ 934	$ 1,020	$ 606	$ 1,012	$ 3,572
Revenue recognition:					
Software sales	(3)	(3)	3	(1)	(4)
Other revenue recognition	(20)	(3)	9	30	16
Revenue recognition	(23)	(6)	12	29	12
Warranty liabilities	(14)	(52)	(14)	25	(55)
Restructuring reserves					
Other reserves and accruals	(8)	11	41	33	77

(Provision) benefit for income taxes		19		9		(10)		(22)		(4)
Net impact of adjustments		(26)		(38)		29		65		30
Net income as restated	$	908	$	982	$	635	$	1,077	$	3,602

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Impact of Restatement Adjustments on Fiscal 2005 Net Income

The following table presents the impact of the restatement adjustments on our Consolidated Statement of Income for the fiscal year ended January 28, 2005:

	Fiscal 2005							
		Adjustments						
		Revenue recognition						
	As Reported	Software sales	Other	Warranty liabilities	Restruc-turing	Other reserves and accruals	Provision for income tax[a]	As Restated
	(in millions, except per share data)							
Net revenue	$ 49,205	$ (105)	$ 21	$	$	$	$	$ 49,121
Cost of net revenue	40,190	(93)	21	21		(36)		40,103
Gross margin	9,015	(12)		(21)		36		9,018
Operating expenses:								
Selling, general, and administrative	4,298					54		4,352
Research, development, and engineering	463					(3)		460
Total operating expenses	4,761					51		4,812
Operating income	4,254	(12)		(21)		(15)		4,206
Investment and other income, net	191		1			5		197
Income before income taxes	4,445	(12)	1	(21)		(10)		4,403
Income tax provision	1,402						(17)	1,385
Net income	$ 3,043							$ 3,018
Earnings per common share:								
Basic	$ 1.21							$ 1.20
Diluted	$ 1.18							$ 1.18
Weighted-average shares outstanding:								
Basic	2,509							2,509
Diluted	2,568							2,568

(a) Primarily represents the aggregate tax impact of the adjustments.

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Impact of Restatement Adjustments on Fiscal 2005 Quarterly Financial Data

The following tables present selected quarterly financial data for Fiscal 2005:

Fiscal 2005	First Quarter April 30, 2004 As Reported	Adjustments	As Restated	Second Quarter July 30, 2004 As Reported	Adjustments	As Restated
	(in millions, expect per share data)					
Results of Operations:						
Net revenue	$ 11,540	$ 44	$ 11,584	$ 11,706	$ (56)	$ 11,650
Gross margin	$ 2,073	$ (14)	$ 2,059	$ 2,134	$ 59	$ 2,193
Operating income	$ 966	$ (34)	$ 932	$ 1,006	$ 59	$ 1,065
Income before income taxes	$ 1,015	$ (15)	$ 1,000	$ 1,052	$ 54	$ 1,106
Net income	$ 731	$ (10)	$ 721	$ 799	$ 41	$ 840
Earnings per common share:						
Basic	$ 0.29	$ (0.01)	$ 0.28	$ 0.32	$ 0.01	$ 0.33
Diluted	$ 0.28	$	$ 0.28	$ 0.31	$ 0.02	$ 0.33
Number of weighted-average shares outstanding:						
Basic	2,539		2,539	2,518		2,518
Diluted	2,593		2,593	2,574		2,574
Cash Flow and Balance Sheet Data:						
Net cash provided by operating activities[d]	$ 1,002	$ 135	$ 1,137	$ 703	$ 62	$ 765
Cash, cash equivalents and investments	$ 11,886	$	$ 11,886	$ 11,810	$	$ 11,810
Total assets	$ 19,709	$ 10	$ 19,719	$ 19,932	$ 17	$ 19,949
Short-term borrowings[a]	$	$ 101	$ 101	$	$ 80	$ 80
Long-term debt[b]	$ 505	$ 126	$ 631	$ 505	$ 133	$ 638
Total stockholders equity	$ 6,105	$ (61)	$ 6,044	$ 6,207	$ (20)	$ 6,187

Fiscal 2005	Third Quarter October 29, 2004 As Reported	Adjustments	As Restated	Fourth Quarter[c] January 28, 2005 As Reported	Adjustments	As Restated
	(in millions, expect per share data)					
Results of Operations:						
Net revenue	$ 12,502	$ 11	$ 12,513	$ 13,457	$ (83)	$ 13,374
Gross margin	$ 2,313	$ (11)	$ 2,302	$ 2,495	$ (31)	$ 2,464
Operating income	$ 1,095	$ (20)	$ 1,075	$ 1,187	$ (53)	$ 1,134
Income before income taxes	$ 1,143	$ (21)	$ 1,122	$ 1,235	$ (60)	$ 1,175
Net income	$ 846	$ (14)	$ 832	$ 667	$ (42)	$ 625

Earnings per common share:						
Basic	$ 0.34	$ (0.01)	$ 0.33	$ 0.27	$ (0.02)	$ 0.25
Diluted	$ 0.33	$	$ 0.33	$ 0.26	$ (0.02)	$ 0.24
Number of weighted-average shares outstanding:						
Basic	2,493		2,493	2,485		2,485
Diluted	2,546		2,546	2,553		2,553
Cash Flow and Balance Sheet Data:						
Net cash provided by operating activities[d]	$ 1,787	$ 83	$ 1,870	$ 1,818	$ 231	$ 2,049
Cash, cash equivalents and investments	$ 12,436	$	$ 12,436	$ 14,101	$	$ 14,101
Total assets	$ 21,054	$ 73	$ 21,127	$ 23,215	$ 103	$ 23,318
Short-term borrowings[a]	$	$ 79	$ 79	$	$ 74	$ 74
Long-term debt[b]	$ 505	$ 154	$ 659	$ 505	$ 157	$ 662
Total stockholders equity	$ 5,880	$ (35)	$ 5,845	$ 6,485	$ (73)	$ 6,412

(a) The restated amounts for short-term borrowings reflect (1) a correction in classification from accounts payable for vendor financing for the periods from the end of Fiscal 2002 until termination in the first quarter of Fiscal 2006, and (2) a correction in classification from other current liabilities for the short-term portion of outstanding advances under the DFS Credit Facilities for the periods from the third quarter of Fiscal 2004 through Fiscal 2007.

(b) The restated amounts for long-term debt reflect (1) adjustments to record changes in the fair value of the debt where the interest rate is hedged with interest rate swap agreements for all periods restated and (2) a correction in classification from both other current liabilities and other non-current liabilities related to the long-term portion of outstanding advances under the DFS Credit Facilities for the periods from the third quarter of Fiscal 2004 through Fiscal 2007.

(c) Results include an income tax charge of $280 million related to the repatriation of earnings under the American Jobs Creation Act of 2004 recorded in the fourth quarter.

(d) The cash flows have been revised to reflect a closer approximation of the weighted-average exchange rates during the reporting periods. For most periods, this revision reduced the previously reported effect of exchange rate changes on cash and cash equivalents with an offsetting change in effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies and changes in operating working capital included in cash flows from operating activities.

Fiscal 2005 Restatement Adjustments to Previously Reported Net Income

The following table presents the impact of the restatement on our previously reported net income for each quarter of Fiscal 2005. See Note 2 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data for further discussion of the restatement.

Fiscal 2005 (As Restated)	First Quarter April 30, 2004	Second Quarter July 30, 2004	Third Quarter October 29, 2004	Fourth Quarter January 28, 2005	Fiscal Year January 28, 2005
			(in millions)		
Net income as reported	$ 731	$ 799	$ 846	$ 667	$ 3,043
Revenue recognition:					
Software sales	(2)	(2)	(3)	(5)	(12)
Other revenue recognition	11	(2)	6	(14)	1
Revenue recognition	9	(4)	3	(19)	(11)
Warranty liabilities	1	24	(21)	(25)	(21)
Restructuring reserves					
Other reserves and accruals[(a)]	(25)	34	(3)	(16)	(10)
(Provision) benefit for income taxes	5	(13)	7	18	17
Net impact of adjustments	(10)	41	(14)	(42)	(25)
Net income as restated	$ 721	$ 840	$ 832	$ 625	$ 3,018

(a) Reflects an adjustment of an amount of vendor funding recognized in the first quarter of Fiscal 2005 but earned in the second quarter of Fiscal 2005.

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Impact of Restatement Adjustments on Fiscal 2004 Net Income

The following table presents the impact of the restatement adjustments on our Consolidated Statement of Income for the fiscal year ended January 30, 2004:

	Fiscal 2004							
		Adjustments						
		Revenue recognition						
	As Reported	Software sales	Other[a]	Warranty liabilities	Restruc-turing	Other reserves and accruals	Provision for income tax[b]	As Restated
	(in millions, except per share data)							
Net revenue	$ 41,444	$ 4	$ (121)	$	$	$	$	$ 41,327
Cost of net revenue	33,892	6	(6)	(94)		(34)		33,764
Gross margin	7,552	(2)	(115)	94		34		7,563
Operating expenses:								
Selling, general, and administrative	3,544		(1)		4	57		3,604
Research, development, and engineering	464					(30)		434
Total operating expenses	4,008		(1)		4	27		4,038
Operating income	3,544	(2)	(114)	94	(4)	7		3,525
Investment and other income, net	180		(1)			7		186
Income before income taxes	3,724	(2)	(115)	94	(4)	14		3,711
Income tax provision	1,079						7	1,086
Net income	$ 2,645							$ 2,625
Earnings per common share:								
Basic	$ 1.03							$ 1.02
Diluted	$ 1.01							$ 1.00
Weighted-average shares outstanding:								
Basic	2,565							2,565

Diluted	2,619	2,619

(a) Primarily includes adjustments to the deferral and amortization of revenue from extended warranty and enhanced service level agreements, and adjustments to the period end in-transit revenue deferrals. See Note 2 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data for additional detail.

(b) Primarily represents the aggregate tax impact of the adjustments.

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Impact of Restatement Adjustments on Fiscal 2004 Quarterly Financial Data

The following tables present selected quarterly financial data for Fiscal 2004:

Fiscal 2004	First Quarter May 2, 2003 As Reported	Adjustments	As Restated	Second Quarter August 1, 2003 As Reported	Adjustments	As Restated
	(in millions, expect per share data)					
Results of Operations:						
Net revenue	$ 9,532	$ (11)	$ 9,521	$ 9,778	$ (98)	$ 9,680
Gross margin	$ 1,748	$ 9	$ 1,757	$ 1,778	$ (69)	$ 1,709
Operating income	$ 811	$ 18	$ 829	$ 840	$ (92)	$ 748
Income before income taxes	$ 854	$ 20	$ 874	$ 887	$ (87)	$ 800
Net income	$ 598	$ 11	$ 609	$ 621	$ (63)	$ 558
Earnings per common share:						
Basic	$ 0.23	$ 0.01	$ 0.24	$ 0.24	$ (0.02)	$ 0.22
Diluted	$ 0.23	$	$ 0.23	$ 0.24	$ (0.03)	$ 0.21
Number of weighted-average shares outstanding:						
Basic	2,572		2,572	2,567		2,567
Diluted	2,614		2,614	2,624		2,624
Cash Flow and Balance Sheet Data:						
Net cash provided by operating activities[c]	$ 812	$ 117	$ 929	$ 740	$ 134	$ 874
Cash, cash equivalents and investments	$ 10,332	$ (2)	$ 10,330	$ 10,618	$ (1)	$ 10,617
Total assets	$ 15,712	$ 70	$ 15,782	$ 16,540	$ 53	$ 16,593
Short-term borrowings[a]	$	$ 134	$ 134	$	$ 81	$ 81
Long-term debt[b]	$ 506	$ 81	$ 587	$ 506	$ 42	$ 548
Total stockholders equity	$ 5,076	$ (19)	$ 5,057	$ 5,506	$ (85)	$ 5,421

Fiscal 2004	Third Quarter October 31, 2003 As Reported	Adjustments	As Restated	Fourth Quarter January 30, 2004 As Reported	Adjustments	As Restated
	(in millions, expect per share data)					
Results of Operations:						
Net revenue	$ 10,622	$ 7	$ 10,629	$ 11,512	$ (15)	$ 11,497
Gross margin	$ 1,935	$ 23	$ 1,958	$ 2,091	$ 48	$ 2,139
Operating income	$ 912	$ 5	$ 917	$ 981	$ 50	$ 1,031
Income before income taxes	$ 953	$ 7	$ 960	$ 1,030	$ 47	$ 1,077
Net income	$ 677	$ 2	$ 679	$ 749	$ 30	$ 779

Earnings per common share:						
Basic	$ 0.26	$	$ 0.26	$ 0.29	$ 0.01	$ 0.30
Diluted	$ 0.26	$	$ 0.26	$ 0.29	$ 0.01	$ 0.30
Number of weighted-average shares outstanding:						
Basic	2,563		2,563	2,557		2,557
Diluted	2,623		2,623	2,616		2,616
Cash Flow and Balance Sheet Data:						
Net cash provided by operating activities[(c)]	$ 1,060	$ (119)	$ 941	$ 1,058	$ 262	$ 1,320
Cash, cash equivalents and investments	$ 11,032	$ (2)	$ 11,030	$ 11,922	$ (1)	$ 11,921
Total assets	$ 18,125	$ 14	$ 18,139	$ 19,311	$ 29	$ 19,340
Short-term borrowings[(a)]	$	$ 176	$ 176	$	$ 157	$ 157
Long-term debt[(b)]	$ 506	$ 132	$ 638	$ 505	$ 140	$ 645
Total stockholders equity	$ 5,878	$ (78)	$ 5,800	$ 6,280	$ (42)	$ 6,238

(a) The restated amounts for short-term borrowings reflect (1) a correction in classification from accounts payable for vendor financing for the periods from the end of Fiscal 2002 until termination in the first quarter of Fiscal 2006, and (2) a correction in classification from other current liabilities for the short-term portion for outstanding advances under the DFS Credit Facilities for the periods from the third quarter of Fiscal 2004 through Fiscal 2007.

(b) The restated amounts for long-term debt reflect (1) adjustments to record changes in the fair value of the debt where the interest rate is hedged with interest rate swap agreements for all periods restated and (2) a correction in classification from both other current liabilities and other non-current liabilities related to the long-term portion of outstanding advances under the DFS Credit Facilities for the periods from the third quarter of Fiscal 2004 through Fiscal 2007.

(c) The cash flows have been revised to reflect a closer approximation of the weighted-average exchange rates during the reporting periods. For most periods, this revision reduced the previously reported effect of exchange rate changes on cash and cash equivalents with an offsetting change in effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies and changes in operating working capital included in cash flows from operating activities.

Fiscal 2004 Restatement Adjustments to Previously Reported Net Income

The following table presents the impact of the restatement on our previously reported net income for each quarter of Fiscal 2004:

Fiscal 2004 (As Restated)	**First Quarter May 2, 2003**	**Second Quarter August 1, 2003**	**Third Quarter October 31, 2003**	**Fourth Quarter January 30, 2004**	**Fiscal Year January 30, 2004**
			(in millions)		
Net income as reported	$ 598	$ 621	$ 677	$ 749	$ 2,645
Revenue recognition:					
Software sales		(1)	2	(3)	(2)
Other revenue recognition[a]	(31)	(58)	(6)	(20)	(115)
Revenue recognition	(31)	(59)	(4)	(23)	(117)
Warranty liabilities	11	5	35	43	94
Restructuring reserves	(3)	(2)	1		(4)
Other reserves and accruals	43	(31)	(24)	26	14
(Provision) benefit for income taxes	(9)	24	(6)	(16)	(7)
Net impact of adjustments	11	(63)	2	30	(20)
Net income as restated	$ 609	$ 558	$ 679	$ 779	$ 2,625

(a)

Primarily includes adjustments to the deferral and amortization of revenue from extended warranty and enhanced service level agreements, and adjustments to the period end in-transit revenue deferrals. See Note 2 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data for additional detail.

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Impact of Restatement Adjustments on Fiscal 2003 Net Income

The following table presents the impact of the restatement adjustments on our Consolidated Statement of Income for the fiscal year ended January 31, 2003:

		Fiscal 2003 Adjustments						
		Revenue recognition						
	As Reported	Software sales	Other[b]	Warranty liabilities	Restruc-turing	Other reserves and accruals[a]	Provision for income tax[c]	As Restated
	(in millions, except per share data)							
Net revenue	$ 35,404	$ (78)	$ (64)	$	$	$	$	$ 35,262
Cost of net revenue	29,055	(73)	(26)	(98)	22	(56)		28,824
Gross margin	6,349	(5)	(38)	98	(22)	56		6,438
Operating expenses:								
Selling, general, and administrative	3,050		(5)		72	128		3,245
Research, development, and engineering	455							455
Total operating expenses	3,505		(5)		72	128		3,700
Operating income	2,844	(5)	(33)	98	(94)	(72)		2,738
Investment and other income, net	183		(5)			(9)		169
Income before income taxes	3,027	(5)	(38)	98	(94)	(81)		2,907
Income tax provision	905						(29)	876
Net income	$ 2,122							$ 2,031
Earnings per common share:								
Basic	$ 0.82							$ 0.79
Diluted	$ 0.80							$ 0.77
Weighted-average shares outstanding:								
Basic	2,584							2,584

Diluted	2,644	2,644

(a) Primarily includes adjustments in the recognition of the benefit of certain vendor funding arrangements, and adjustments to the lease accruals for certain Dell facilities. See Note 2 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data for additional details.

(b) Other revenue recognition primarily includes adjustments to the recognition of deferred warranty revenue associated with the sale of extended warranties and enhanced service level agreements. See Note 2 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data for additional details.

(c) Primarily represents the aggregate tax impact of the adjustments.

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Impact of Restatement Adjustments on Fiscal 2003 Quarterly Financial Data

The following table presents selected quarterly financial data for Fiscal 2003:

Fiscal 2003	First Quarter May 3, 2002			Second Quarter August 2, 2002		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
	(in millions, expect per share data)					
Results of Operations:						
Net revenue	$ 8,066	$ 17	$ 8,083	$ 8,459	$ (49)	$ 8,410
Gross margin	$ 1,391	$ (1)	$ 1,390	$ 1,515	$ 41	$ 1,556
Operating income	$ 590	$ (73)	$ 517	$ 677	$ 9	$ 686
Income before income taxes	$ 638	$ (77)	$ 561	$ 726	$	$ 726
Net income	$ 457	$ (56)	$ 401	$ 501	$	$ 501
Earnings per common share:						
Basic	$ 0.18	$ (0.03)	$ 0.15	$ 0.19	$	$ 0.19
Diluted	$ 0.17	$ (0.02)	$ 0.15	$ 0.19	$	$ 0.19
Number of weighted-average shares outstanding:						
Basic	2,595		2,595	2,586		2,586
Diluted	2,672		2,672	2,649		2,649
Cash Flow and Balance Sheet Data:						
Net cash provided by operating activities[d]	$ 579	$ (1)	$ 578	$ 868	$ 130	$ 998
Cash, cash equivalents and investments	$ 8,194	$ 1	$ 8,195	$ 8,633	$ 1	$ 8,634
Total assets	$ 13,316	$ 46	$ 13,362	$ 14,062	$ 55	$ 14,117
Short-term borrowings[a]	$	$ 162	$ 162	$	$ 161	$ 161
Long-term debt[b]	$ 520	$ 21	$ 541	$ 516	$ 48	$ 564
Total stockholders equity[c]	$ 4,521	$ 5	$ 4,526	$ 4,566	$ 10	$ 4,576

Fiscal 2003	Third Quarter November 1, 2002			Fourth Quarter January 31, 2003		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
	(in millions, expect per share data)					
Results of Operations:						
Net revenue	$ 9,144	$ 40	$ 9,184	$ 9,735	$ (150)	$ 9,585
Gross margin	$ 1,662	$ 60	$ 1,722	$ 1,781	$ (11)	$ 1,770
Operating income	$ 758	$ (4)	$ 754	$ 819	$ (38)	$ 781
Income before income taxes	$ 802	$ (12)	$ 790	$ 861	$ (31)	$ 830
Net income	$ 561	$ (11)	$ 550	$ 603	$ (24)	$ 579

Earnings per common share:						
Basic	$ 0.22	$ (0.01)	$ 0.21	$ 0.23	$ (0.01)	$ 0.22
Diluted	$ 0.21	$	$ 0.21	$ 0.23	$ (0.01)	$ 0.22
Number of weighted-average shares outstanding:						
Basic	2,582		2,582	2,576		2,576
Diluted	2,634		2,634	2,621		2,621
Cash Flow and Balance Sheet Data:						
Net cash provided by operating activities[d]	$ 954	$ 126	$ 1,080	$ 1,137	$ 115	$ 1,252
Cash, cash equivalents and investments	$ 9,059	$ 1	$ 9,060	$ 9,905	$ 5	$ 9,910
Total assets	$ 14,712	$ 22	$ 14,734	$ 15,470	$ 70	$ 15,540
Short-term borrowings[a]	$	$ 101	$ 101	$	$ 129	$ 129
Long-term debt[b]	$ 514	$ 64	$ 578	$ 506	$ 75	$ 581
Total stockholders equity[c]	$ 4,648	$ 3	$ 4,651	$ 4,873	$ (27)	$ 4,846

(a) The restated amounts for short-term borrowings reflect (1) a correction in classification from accounts payable for vendor financing for the periods from the end of Fiscal 2002 until termination in the first quarter of Fiscal 2006, and (2) a correction in classification from other current liabilities for the short-term portion of outstanding advances under the DFS Credit Facilities for the periods from the third quarter of Fiscal 2004 through Fiscal 2007.

(b) The restated amounts for long-term debt reflect (1) adjustments to record changes in the fair value of the debt where the interest rate is hedged with interest rate swap agreements for all periods restated and (2) a correction in classification from other current liabilities of the long-term portion of outstanding advances under the DFS Credit Facilities for the periods from the third quarter of Fiscal 2004 through Fiscal 2007.

(c) The adjustments relating to fiscal years prior to Fiscal 2003 are reflected in beginning retained earnings. The cumulative impact of these adjusting entries increased beginning retained earnings by $59 million, net of tax.

(d) The cash flows have been revised to reflect a closer approximation of the weighted-average exchange rates during the reporting periods. For most periods, this revision reduced the previously reported effect of exchange rate changes on cash and cash equivalents with an offsetting change in effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies and changes in operating working capital included in cash flows from operating activities.

Fiscal 2003 Restatement Adjustments to Previously Reported Net Income

The following table presents the impact of the restatement on our previously reported net income for each quarter of Fiscal 2003:

Fiscal 2003 (As Restated)	**First Quarter May 3, 2002**	**Second Quarter August 2, 2002**	**Third Quarter November 1, 2002**	**Fourth Quarter January 30, 2003**	**Fiscal Year January 30, 2003**
			(in millions)		
Net income as reported	$ 457	$ 501	$ 561	$ 603	$ 2,122
Revenue recognition:					
Software sales	1	(1)	(1)	(4)	(5)
Other revenue recognition[a]	12	20	15	(85)	(38)
Revenue recognition	13	19	14	(89)	(43)
Warranty liabilities	10	13	21	54	98
Restructuring reserves	(37)	(12)	(17)	(28)	(94)
Other reserves and accruals[b]	(63)	(19)	(30)	31	(81)
(Provision) benefit for income taxes	21	(1)	1	8	29
Net impact of adjustments	(56)		(11)	(24)	(91)
Net income as restated	$ 401	$ 501	$ 550	$ 579	$ 2,031

(a) Other revenue recognition primarily includes adjustments to the recognition of deferred warranty revenue associated with the sale of extended warranties and enhanced service level agreements. See Note 2 of Notes to

Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data for additional details.

(b) Other reserves and accruals primarily include adjustments in the recognition of the benefit of certain vendor funding arrangements, and adjustments to the lease accruals for certain Dell facilities. See Note 2 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data for additional details.

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

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

AUDIT COMMITTEE INDEPENDENT INVESTIGATION AND RESTATEMENT

Background

In August 2005, the Division of Enforcement of the United States Securities and Exchange Commission (the SEC) initiated an inquiry into certain of our accounting and financial reporting matters and requested that we provide certain documents. Over the course of several months, we produced documents and provided information in response to the SEC s initial request and subsequent requests.

In June 2006, the SEC sent us an additional request for documents and information that appeared to expand the scope of the inquiry, with respect to both issues and periods. As documents and information were collected in response to this additional request, our management was made aware of information that raised significant accounting and financial reporting concerns, including whether accruals, reserves, and other balance sheet items had been recorded and reported properly. After evaluating this information and in consultation with PricewaterhouseCoopers LLP, our independent registered public accounting firm, management determined that the identified issues warranted an independent investigation and recommended such to the Audit Committee of our Board of Directors.

On August 16, 2006, the Audit Committee, acting on management s recommendation, approved the initiation of an independent investigation. The Audit Committee engaged Willkie Farr & Gallagher LLP (Willkie Farr) to lead the investigation as independent legal counsel to the Audit Committee. Willkie Farr in turn engaged KPMG LLP (KPMG) to serve as its independent forensic accountants.

Scope of the Investigation

The scope of the investigation was determined by Willkie Farr, in consultation with the Audit Committee and KPMG. The investigation involved a program of forensic analysis and inquiry directed to aspects of our accounting and financial reporting practices throughout the world, and evaluated aspects of our historical accounting and financial reporting practices since Fiscal 2002 and, with respect to certain issues, prior fiscal years.

Willkie Farr and KPMG assembled an investigative team that ultimately consisted of more than 375 professionals, including more than 125 lawyers and 250 accountants. Investigative teams were deployed in our three geographic regions Americas (including our corporate functions), EMEA, and APJ. Information and documents were gathered from company personnel worldwide. Using proprietary search software, the investigative team evaluated over five million documents. Investigative counsel also conducted over 200 interviews of approximately 150 individuals, and the KPMG accountants, in connection with their forensic work, conducted numerous less formal discussions with various company employees. In addition, using a proprietary software tool designed to identify potentially questionable journal entries based on selected criteria (for example, entries made late in the quarterly close process, entries containing round dollar line items between $3 million and $50 million, and liability-to-liability transfers), KPMG selected and reviewed in excess of 2,600 journal entries that were highlighted by the tool or specifically identified by the forensic teams investigating specific issues.

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Summary of Investigation Findings

The investigation raised questions relating to numerous accounting issues, most of which involved adjustments to various reserve and accrued liability accounts, and identified evidence that certain adjustments appear to have been motivated by the objective of attaining financial targets. According to the investigation, these activities typically occurred in the days immediately following the end of a quarter, when the accounting books were being closed and the results of the quarter were being compiled. The investigation found evidence that, in that timeframe, account balances were reviewed, sometimes at the request or with the knowledge of senior executives, with the goal of seeking adjustments so that quarterly performance objectives could be met. The investigation concluded that a number of these adjustments were improper, including the creation and release of accruals and reserves that appear to have been made for the purpose of enhancing internal performance measures or reported results, as well as the transfer of excess accruals from one liability account to another and the use of the excess balances to offset unrelated expenses in later periods. The investigation found that sometimes business unit personnel did not provide complete information to corporate headquarters and, in a number of instances, purposefully incorrect or incomplete information about these activities was provided to internal or external auditors.

The investigation identified evidence that accounting adjustments were viewed at times as an acceptable device to compensate for earnings shortfalls that could not be closed through operational means. Often, these adjustments were several hundred thousand or several million dollars, in the context of a company with annual revenues ranging from $35.3 billion to $55.8 billion and annual net income ranging from $2.0 billion to $3.6 billion for the periods in question. The errors and irregularities identified in the course of the investigation revealed deficiencies in our accounting and financial control environment, some of which were determined to be material weaknesses, that require corrective and remedial actions. For a description of the control deficiencies identified by management as a result of the investigation and our internal reviews described below, as well as management s plan to remediate those deficiencies, see Part II Item 9A Controls and Procedures.

Other Company Identified Adjustments

Concurrently with the investigation, we also conducted extensive internal reviews for the purpose of the preparation and certification of our Fiscal 2007 and prior financial statements and our assessment of internal controls over financial reporting. Our procedures included expanded account reviews and expanded balance sheet reconciliations to ensure all accounts were fully reconciled, supported, and appropriately documented. We also implemented improvements to our quarterly and annual accounting close process to provide for more complete review of the various business unit financial results. These additional reviews identified issues involving, among other things, revenue recognition in connection with sales of third party software, amortization of revenue related to after-point-of-sale extended warranties, and accounting for certain vendor reimbursement agreements.

Restatement

As a result of issues identified in the Audit Committee investigation, as well as issues identified in the additional reviews and procedures conducted by management, the Audit Committee, in consultation with management and PricewaterhouseCoopers LLP, our independent registered public accounting firm, concluded on August 13, 2007 that our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements. Accordingly, we have restated our previously issued financial statements for those periods. See Note 2 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data.

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Overview

Our Company

As a leading technology company, we offer a broad range of product categories, including desktop computer systems, mobility products, servers, storage, software and peripherals, and services. We are the number one supplier of desktop and notebook systems in the United States, and the number two supplier worldwide. Our past performance has been the result of a persistent focus on delivering directly to our customers relevant technology and services at the best value.

Our business strategy is evolving. Historically we utilized our direct customer model and highly efficient manufacturing and logistics to lower the cost of technology for our customers. We are now simplifying information technology for our customers from point of sale to the usability of our products to the service solutions we sell. Using this strategy, we strive to provide the best possible customer experience by offering superior value; high-quality; relevant technology; customized systems; superior service and support; and differentiated products and services that are easy to buy and use. We also offer various financing alternatives, asset management services, and other customer financial services for business and consumer customers. To reach even more customers globally we have launched new distribution channels to reach commercial customers and individual consumers around the world.

Although the focus of our business strategy is selling directly to customers, we also utilize indirect sales channels when there is a business need. During Fiscal 2008, we began offering Dell Dimension^{tm} desktop computers and Inspiron^{tm} notebook computers in retail stores in the Americas and announced partnerships with retailers in the U.K., Japan, and China. These actions represent one of the first steps in our retail strategy, which will allow us to extend our model and reach customers that we have not been able to reach directly.

We manufacture most of the products we sell and have manufacturing locations worldwide to service our global customer base. Our build-to-order manufacturing process is designed to allow us to significantly reduce cost while simultaneously providing customers the ability to customize their product purchases. We also have relationships with third-party original equipment manufacturers that build some of our products (such as printers and projectors) to our specifications, and we are exploring the expanded use of original design manufacturing partnerships and manufacturing outsourcing relationships in order to deliver products faster and better serve our customers in certain markets.

Current Business Environment

We participate in a highly competitive industry that is subject to aggressive pricing and strong competitive pressures; however, we believe that our growth potential remains strong. In the U.S., rising energy prices, weakening real estate markets, and inflationary pressures may lead to slower economic growth, which may affect IT and consumer spending during the fourth quarter of Fiscal 2008. A slow down in the U.S. economy could adversely impact other regional markets. Economic conditions in our international markets, which are key to our expansion goals, are highlighted by growing economies in Central and Eastern Europe, expansion in Asia Pacific-Japan (APJ), and continued development in Latin America. Overall, expected industry growth is in line with prior year growth.

Fiscal 2007 Performance

Share position	According to IDC, we shipped an industry record of 39.1 million units for calendar year 2006, resulting in a worldwide PC share position of 17.1%. However, we lost share in the U.S. Consumer segment, which slowed our overall growth in unit shipments, revenue, and profitability. This was mainly due to intense competitive pressure, particularly in the lower priced desktops and notebooks where competitors offered aggressively priced products with better product recognition and more relevant feature sets.
Net revenue	Fiscal 2007 revenue increased 3% year-over-year to $57.4 billion, with unit shipments up 2% year-over-year, as compared to Fiscal 2006 revenue which increased 14% year-over-year to $55.8 billion on unit growth of 19% over Fiscal 2005 revenue of $49.1 billion.
Operating income	Operating income was $3.1 billion for Fiscal 2007, or 5.4% of revenue, compared to $4.4 billion or 7.9% of revenue in Fiscal 2006 and $4.2 billion or 8.6% of revenue in Fiscal 2005.
Net income	Net income was $2.6 billion for Fiscal 2007, or 4.5% of revenue, compared to $3.6 billion or 6.5% of revenue in Fiscal 2006 and $3.0 billion or 6.1% of revenue in Fiscal 2005.
Earnings per share	Earnings per share decreased 23% to $1.14 for Fiscal 2007, compared to $1.47 for Fiscal 2006 and $1.18 for Fiscal 2005.

Results of Operations

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

	Fiscal Year Ended					
	February 2, 2007[(a)]		February 3, 2006[(b)]		January 28, 2005[(c)]	
	Dollars	% of Revenue	Dollars As Restated	% of Revenue As Restated	Dollars As Restated	% of Revenue As Restated
	(in millions, except per share amounts and percentages)					
Net revenue	$ 57,420	100.0%	$ 55,788	100.0%	$ 49,121	100.0%
Gross margin	$ 9,516	16.6%	$ 9,891	17.7%	$ 9,018	18.4%
Operating expenses	$ 6,446	11.2%	$ 5,509	9.8%	$ 4,812	9.8%
Operating income	$ 3,070	5.4%	$ 4,382	7.9%	$ 4,206	8.6%
Income tax provision	$ 762	1.3%	$ 1,006	1.8%	$ 1,385	2.8%
Net income	$ 2,583	4.5%	$ 3,602	6.5%	$ 3,018	6.1%
Earnings per share diluted	$ 1.14	N/A	$ 1.47	N/A	$ 1.18	N/A

(a) Results for Fiscal 2007 include stock-based compensation expense of $368 million, or $258 million ($0.11 per share) net of tax, due to the implementation of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment,* (SFAS 123(R)). We implemented SFAS 123(R) using the modified prospective method effective February 4, 2006. For additional information, see Note 6 of Notes to Consolidated Financial

Statements included in Part II Item 8 Financial Statements and Supplementary Data.

(b) Results for Fiscal 2006 include charges aggregating $421 million ($338 million of other product charges and $83 million in selling, general, and administrative expenses) related to the cost of servicing or replacing certain OptiPlex[tm] systems that include a vendor part that failed to perform to our specifications, workforce realignment, product rationalizations, excess facilities, and a write-off of goodwill recognized in the third quarter. The related tax effect of these items was $96 million. Fiscal 2006 also includes an $85 million income tax benefit related to a revised estimate of taxes on the repatriation of earnings under the American Jobs Creation Act of 2004 recognized in the second quarter.

(c) Results for Fiscal 2005 include an income tax charge of $280 million related to the repatriation of earnings under the American Jobs Creation Act of 2004 recorded in the fourth quarter.

Consolidated Operations

Fiscal 2007 revenue increased 3% year-over-year to $57.4 billion, with unit shipments up 2% year-over-year. Revenue grew across the EMEA and APJ regions by 6% and 12%, respectively, while the Americas region revenue remained flat year-over-year. Revenue outside the U.S. represented approximately 44% of Fiscal 2007 consolidated revenue, compared to approximately 41% in the prior year. Outside the U.S., we produced 10% year-over-year revenue growth for Fiscal 2007. During Fiscal 2007, Americas Business revenue grew by 3% and U.S. Consumer revenue declined by 11%. All product categories grew revenue over the prior year periods, other than desktop PCs. Desktop PC revenue in the Americas and EMEA regions declined 12% and 6% year-over-year, respectively. This decline in desktop PC revenue reflects an industry-wide shift to mobility products. During Fiscal 2006, revenue increased 14% year-over-year to $55.8 billion, with unit shipments up 19% year-over-year. This included an extra week of operations that contributed almost one percentage point of added revenue growth. Revenue outside the U.S. represented 41% of Fiscal 2006 consolidated revenue compared to 38% in the prior year. Outside the U.S., we produced 21% year-over-year revenue growth for Fiscal 2006.

Operating and net income for Fiscal 2007, Fiscal 2006, and Fiscal 2005 were $3.1 billion and $2.6 billion, $4.4 billion and $3.6 billion, $4.2 billion and $3.0 billion, respectively. Net income for Fiscal 2006 and Fiscal 2005 includes an income tax repatriation benefit of $85 million and a charge of $280 million, respectively, pursuant to a favorable tax incentive provided by the American Jobs Creation Act of 2004. This tax benefit and charge is related to the Fiscal 2006 repatriation of $4.1 billion in foreign earnings.

Our average selling price in Fiscal 2007 increased 1% year-over-year, which primarily resulted from our pricing strategy, compared to a 4% year-over-year decrease for Fiscal 2006. In Fiscal 2007 we continued to see intensive competitive pressure, particularly for lower priced desktops and notebooks, as competitors offered aggressively priced products with better product recognition and more relevant feature sets. As a result, particularly in the U.S., we lost share in the consumer segment in notebooks and desktops, which slowed our overall growth in unit shipments, revenue, and profitability. We currently expect that our pricing environment will likely continue for the foreseeable future.

Revenues by Segment

We conduct operations worldwide and manage our business in three geographic regions: the Americas, EMEA, and APJ. The Americas region covers the U.S., Canada, and Latin America. Within the Americas, we are further segmented into Business and U.S. Consumer. The Business segment includes sales to corporate, government, healthcare, education, and small and medium business customers within the Americas region, while the U.S. Consumer segment primarily includes sales to individual consumers within the U.S. The EMEA region covers Europe, the Middle East, and Africa. The APJ region covers the Asian countries of the Pacific Rim as well as Australia, New Zealand, and India.

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

	Fiscal Year Ended February 2, 2007		February 3, 2006		January 28, 2005	
	Dollars	% of Revenue	Dollars As Restated	% of Revenue As Restated	Dollars As Restated	% of Revenue As Restated
	(in millions, except percentages)					
Net revenue						
Americas:						
Business	$ 29,311	51.1%	$ 28,365	50.8%	$ 25,289	51.5%
U.S. Consumer	7,069	12.3%	7,960	14.3%	7,614	15.5%
Americas	36,380	63.4%	36,325	65.1%	32,903	67.0%
EMEA	13,682	23.8%	12,887	23.1%	10,753	21.9%
APJ	7,358	12.8%	6,576	11.8%	5,465	11.1%
Net revenue	$ 57,420	100.0%	$ 55,788	100.0%	$ 49,121	100.0%

Americas Americas revenues remained flat year-over-year as units decreased 4% in Fiscal 2007, compared to revenue and unit growth of 10% and 13%, respectively, in Fiscal 2006. Americas Business represented the majority of our absolute dollar revenue growth in both Fiscal 2007 and Fiscal 2006. This was offset by a decline in the U.S. Consumer business during Fiscal 2007 and slowed growth during Fiscal 2006. Revenue from the sale of mobility products led the segment s growth in both Fiscal 2007 and Fiscal 2006, and grew by single digits in both Americas Business and U.S. Consumer in Fiscal 2007. However, this growth was offset by the continuing trend of declines in desktop PC sales as wireless capabilities, falling prices, and a growing need for mobility have increased demand for notebooks.

- *Business* Americas Business grew revenue by 3% on flat unit growth in Fiscal 2007, compared to 12% revenue growth on 15% unit growth in Fiscal 2006. The slow down of revenue growth was due to desktop weakness. Americas International, which includes countries in North America and Latin America other than the U.S., drove the majority of the increase in revenue in the Americas; however, this growth was offset by overall weakness in demand for U.S. Business, with our Public business contributing to declines year-over-year. Americas International produced revenue growth of 19% year-over-year for Fiscal 2007 as compared to 30% revenue growth year-over-year in Fiscal 2006.

- *U.S. Consumer* U.S. Consumer revenue and unit volume decreased 11% and 14% in Fiscal 2007, respectively, compared to revenue growth of 5% on unit growth of 9% in Fiscal 2006. U.S. Consumer revenue growth slowed as compared to Fiscal 2006 primarily due to a 25% decline in both desktop revenue and unit volume. This segment s average selling price in Fiscal 2007 increased 3% year-over-year, which principally resulted from our pricing strategy, compared to a 4% year-over-year decline from a year ago. We continue to see a shift to mobility products in U.S. Consumer and our other segments as notebooks become more affordable. Our U.S. Consumer business continues to face a competitive pricing environment. Consequently, we experienced growth significantly slower than the U.S. sales growth. Revenue from the sale of mobility products increased 1% in Fiscal 2007 on unit growth of 3%, as compared to 27% revenue growth on 55% unit growth in Fiscal 2006. This environment has led the U.S. Consumer business to update its business model and enter into a limited number of retail distribution arrangements to complement and extend the existing direct business.

EMEA EMEA produced positive results with 6% revenue growth on 7% unit growth in Fiscal 2007, compared to 20% revenue growth on 28% unit growth in Fiscal 2006. In Fiscal 2007, the segment s performance was largely attributed to mobility products, where year-over-year unit volumes and revenue grew 29% and 15%, respectively, compared to 49% and 23% in Fiscal 2006, respectively. This sustained growth occurred primarily in France and Germany in Fiscal 2007, with Germany leading the region s progress. United Kingdom experienced weak demand in the consumer business, resulting in a 2% year-over-year decline in revenue for Fiscal 2007, as compared to year-over-year growth of 12% in Fiscal

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2006. With the exception of desktop PCs, all product categories in this region experienced growth for Fiscal 2007 with mobility, storage, and enhanced services revenues posting strong gains. This continues the general trend from Fiscal 2006 where EMEA s revenue growth was strongest in mobility, enhanced services, and software and peripherals.

Asia Pacific-Japan APJ continued to build a substantial presence, with 12% revenue growth on 20% unit growth in Fiscal 2007 and 20% revenue growth on 30% unit growth in Fiscal 2006. The region was led by 26% year-over-year revenue growth in China during Fiscal 2007 and a 13% revenue growth in Japan during Fiscal 2006. Fiscal 2007 s improved performance was partially offset by Japan s results, which saw revenue decline 5% year-over-year. In Fiscal 2007, India, South Korea, Singapore, and Malaysia produced significant year-over-year revenue growth at a higher rate than the overall region. All product categories in this region experienced revenue growth during Fiscal 2007 and Fiscal 2006. Mobility revenue grew 12% on unit growth of 31% during Fiscal 2007 compared to 24% revenue growth on 48% unit growth during Fiscal 2006. Also driving this growth were increases in enhanced services, software and peripherals, and storage, which approximates the growth trends from Fiscal 2006.

For additional information regarding our reportable segments, see Note 10 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data.

Revenue by Product and Service 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 product categories include desktop computer systems, mobility products, software and peripherals, servers and networking products, and storage products. In addition, we offer a range of enhanced services.

In the fourth quarter of Fiscal 2007, we performed an analysis of our enhanced services revenue and determined that certain items previously classified as enhanced services revenue were more appropriately categorized within product revenue. Fiscal 2007 balances reflect the revised revenue classifications, and prior periods have been revised to conform to the current period classification. The change in classification of prior period amounts resulted in an increase of $395 million and $340 million to desktop PCs, $225 million and $171 million to mobility, $10 million and $16 million to software and peripherals, $16 million and $16 million to servers and networking, and $6 million and $4 million to storage in Fiscal 2006 and 2005, respectively. This change in classification was offset by a decrease in enhanced services of $652 million and $547 million in Fiscal 2006 and 2005, respectively.

The following table summarizes our net revenue by product category:

	Fiscal Year Ended					
	February 2, 2007		February 3, 2006		January 28, 2005	
	Dollars	% of Revenue	Dollars As Restated	% of Revenue As Restated	Dollars As Restated	% of Revenue As Restated
	(in millions, except percentage)					
Net revenue:						
Desktop PCs	$ 19,815	34%	$ 21,568	39%	$ 21,141	43%
Mobility	15,480	27%	14,372	25%	12,001	25%
Software and peripherals	9,001	16%	8,329	15%	6,626	13%

Servers and networking	5,805	10%	5,449	10%	4,880	10%
Enhanced services	5,063	9%	4,207	8%	3,121	6%
Storage	2,256	4%	1,863	3%	1,352	3%
Net revenue	$ 57,420	100%	$ 55,788	100%	$ 49,121	100%

Desktop PCs In Fiscal 2007, revenue from desktop PCs (which includes desktop computer systems and workstations) decreased 8% year-over-year on unit decline of 5%, compared to a 2% revenue increase on unit growth of 10% year-over-year in Fiscal 2006. Desktop PCs in the Americas declined year-over-year during both Fiscal 2007 and Fiscal 2006 which was offset by single-digit growth in the APJ region during the same period. Desktop PCs, as compared to mobility products, led Fiscal 2007 in volume; however, business and consumer demand continues to shift toward mobility products. Desktop PC average selling price decreased 3% from Fiscal 2006 to Fiscal 2007 and decreased 7% from Fiscal 2005 to Fiscal 2006. In Fiscal 2007, we launched Quad-core processors on our XPS 710 Extreme desktop as well as on Dell Precision™ workstations. In addition, we introduced our 64-bit dual core Dimension™ and Optiplex™ systems featuring AMD processors. In Fiscal 2008, we introduced Vostro™ desktops specifically designed to meet the needs of small business customers. We will likely see rising user demand for mobility products in the foreseeable future that will contribute to a slowing demand for desktop PCs.

Mobility In Fiscal 2007, revenue from mobility products (which includes notebook computers, mobile workstations, and Dell-branded MP3 players) grew by 8% year-over-year, on unit growth of 18%, compared to a 20% revenue increase on unit growth of 43% year-over-year in Fiscal 2006. The impact of this declining growth was particularly acute in the U.S. and led to a loss of share as compared to the same period last year. The slow growth resulted from both our product feature set and related value offering, particularly in the consumer business, as well as our inability to reach certain customer sets. Our EMEA region led the growth in our mobility product category with 15% and 23% increases in Fiscal 2007 and Fiscal 2006, respectively. During the year, we introduced Dell Latitude™ and Dell Inspiron™ notebooks featuring AMD processors and in Fiscal 2008, we introduced Vostro™ notebooks, specifically designed to meet the needs of small business customers. As notebooks become more affordable and wireless products become standardized, demand for our mobility products continues to be strong, producing robust year-over-year revenue and unit growth. We are likely to see sustained growth in our mobility products in the foreseeable future due to the continued industry-wide migration from desktop PCs to mobility products.

Software and Peripherals In Fiscal 2007 revenue from software and peripherals (S&P) (which includes Dell-branded printers, monitors not sold with systems, plasma and LCD televisions, projectors, and a multitude of competitively priced third-party printers, televisions, software, digital cameras, and other products) increased 8% year-over-year, compared to a 26% increase in Fiscal 2006. The overall improvement in Fiscal 2007 S&P revenue was led by the APJ region with growth of 38% while U.S. consumer sales declined 8%. This increase was primarily attributable to a 12% year-over-year increase in software revenue that was offset by declines in our imaging product revenue. We experienced strong performance in Fiscal 2006 where software, imaging, and other hardware accessories produced double-digit growth.

Servers and Networking In Fiscal 2007, servers and networking revenue grew 7% on unit growth of 6% year-over-year, compared to a 12% revenue increase in Fiscal 2006 on 20% unit growth year-over-year. Servers and networking remains a strategic focus area. We competitively price our server products to facilitate additional sales of storage products and higher margin enhanced services. During the year we introduced our new ninth generation (9G) PowerEdge servers with Intel s latest Xeon 5100 series processors, and we began shipping two new PowerEdge servers featuring AMD Opteron™ processors, providing our customers with an additional choice for high-performance two-socket and four-socket systems. We also launched the industry s first standards-based Quad-Core processors for two-socket blade, rack, and tower servers. These additions contributed to the 6% year-over-year revenue increase in Fiscal 2007 in the Americas Business segment and in Fiscal 2006 we experienced close to 30% unit growth in our APJ region. We now provide the broadest selection of industry-standard servers in our history.

Enhanced Services In Fiscal 2007, revenue from enhanced services (which includes the sale and servicing of our extended product warranties) increased 20% year-over-year compared to a 35% increase in Fiscal 2006. As a result of expanding our services offerings and capabilities globally, we experienced a 26% and 58% year-over-year growth in revenues outside the Americas during Fiscal 2007 and Fiscal 2006, respectively. This growth increased our deferred revenue by $514 million in Fiscal 2007, a 14% increase, and $803 million in Fiscal 2006, a 27% increase, to approximately $4.2 billion and

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$3.7 billion, respectively. We introduced our new Platinum Plus offering during Fiscal 2007, which contributed to an increase in our premium service contracts.

Storage In Fiscal 2007, storage revenue sustained double-digit growth with a 21% year-over-year increase as compared to a 38% year-over-year increase in Fiscal 2006. The Americas led the revenue growth in Fiscal 2007 and Fiscal 2006 with year-over-year increases of 21% and 40%, respectively. In Fiscal 2008, we expect to continue to expand both our PowerVault and Dell &#124 EMC solutions that will utilize new technologies intended to drive both additional increases in performance and customer value. In Fiscal 2007, we also announced a five-year extension to our partnership with EMC. These portfolio enhancements continue to deliver lower cost solutions for our customers.

Gross Margin

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

	Fiscal Year Ended					
	February 2, 2007		February 3, 2006		January 28, 2005	
	Dollars	% of Revenue	Dollars As Restated	% of Revenue As Restated	Dollars As Restated	% of Revenue As Restated
	(in millions, except percentages)					
Net revenue	$ 57,420	100.0%	$ 55,788	100.0%	$ 49,121	100.0%
Gross margin	$ 9,516	16.6%	$ 9,891	17.7%	$ 9,018	18.4%

In Fiscal 2007, our gross margin declined as compared to Fiscal 2006, while revenue increased year-over-year. Throughout Fiscal 2007 industry-wide competition put pressure on average selling prices while our pricing and product strategy evolved. In Fiscal 2007, we added a second source of micro processors (chip sets) ending a long-standing practice of sourcing from only one manufacturer. We believe that moving to more than one supplier of chip sets is beneficial for customers long term, as it adds choice and ensures access to the most current technologies. We now sell the chip sets from a second source across all of our hardware product categories. During the transition from sole to dual sourcing of chip sets, gross and operating income margins were negatively impacted as we re-balanced our product and category mix. In addition, commodity price declines stalled during Fiscal 2007. We continuously negotiate with our suppliers in a variety of areas including availability of supply, quality, and cost. These real-time, continuous supplier negotiations support our business model, which is able to respond quickly to changing market conditions due to our direct customer model and real-time manufacturing. Our component costs reflect both ongoing supplier discount arrangements as well as shorter-term incremental discounts and rebates based on such factors as volume, product offerings and transitions, supply conditions, and joint activities. Because of the fluid nature of these ongoing negotiations, the timing and amount of supplier discounts and rebates vary from time to time. Gross margin as a percent of revenue improved in the second half of the year, with the fourth quarter of Fiscal 2007 ending at 17.1%. In Fiscal 2006, our gross margin declined as a percentage of revenue while gross margin increased in absolute dollars as compared to Fiscal 2005. Our year-over-year decline was primarily due to a product charge of $338 million for estimated warranty costs of servicing or replacing certain OptiPlex[tm] systems that included a vendor part that failed to perform to our specifications, as well as additional charges for product rationalizations and workforce realignment recognized in the third quarter of Fiscal 2006. These charges were offset by favorable pricing on certain commodity components, higher revenue to leverage fixed production costs, and a favorable shift in product mix as compared to the prior year periods.

Operating Expenses

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

	Fiscal Year Ended					
	February 2, 2007		February 3, 2006		January 28, 2005	
	Dollars	% of Revenue	Dollars As Restated	% of Revenue As Restated	Dollars As Restated	% of Revenue As Restated
	(in millions, except percentages)					
Operating expenses:						
Selling, general, and administrative	$ 5,948	10.3%	$ 5,051	9.0%	$ 4,352	8.9%
Research, development, and engineering	498	0.9%	458	0.8%	460	0.9%
Operating expenses	$ 6,446	11.2%	$ 5,509	9.8%	$ 4,812	9.8%

Selling, General, and Administrative During Fiscal 2007, selling, general, and administrative expenses increased 18% to $5.9 billion, compared to $5.1 billion for Fiscal 2006. The increase in Fiscal 2007 as compared to Fiscal 2006 was primarily attributed to increased compensation costs and outside consulting services. This increase was largely due to increased stock-based compensation expense due to the adoption of SFAS 123(R) ($272 million), and costs related to the Audit Committee investigation and related restatement ($100 million). In addition, during Fiscal 2007, we made incremental customer experience investments of $150 million to improve customer satisfaction, repurchase preferences, as well as technical support. As a result, we increased our headcount through direct hiring and replacing of temporary staff with regular employees. During Fiscal 2006, selling, general, and administrative expenses as a percentage of revenue increased compared to Fiscal 2005. The increase over Fiscal 2005 primarily related to increased advertising costs, headcount growth, as well as charges of $83 million related to workforce realignment costs ($50 million), costs of operating leases on office space no longer utilized ($4 million) and a write-off of goodwill ($29 million).

Research, Development, and Engineering During Fiscal 2007, research, development, and engineering expenses increased slightly in absolute dollars, but remained consistent with Fiscal 2006 and 2005 as percentage of net revenue. We continue to fund research, development, and engineering activities to meet the demand for swift product cycles. As a result, Fiscal 2007 research, development, and engineering expenses increased in absolute dollars due to increased staffing levels, product development costs, and stock-based compensation expense resulting from the adoption of SFAS 123(R). Fiscal 2006 as compared to Fiscal 2005 experienced a slight decrease in the percentage of net revenue primarily attributed to our revenue growth. We manage our research, development, and engineering spending by targeting those innovations and products most valuable to our customers, and by relying upon the capabilities of our strategic partners. We will continue to invest in research, development, and engineering activities to support our growth and to provide for new, competitive products. We obtained 1,759 worldwide patents and have applied for 1,824 additional worldwide patents at February 2, 2007.

On May 31, 2007, we announced that we had initiated a comprehensive review of costs across all processes and organizations with the goal to simplify structure, eliminate redundancies, and better align operating expenses with the current business environment and strategic growth opportunities. As part of this overall effort, we expect to reduce headcount and infrastructure costs over the next 12 months. Our management teams are presently finalizing transformation plans which include headcount and infrastructure cost reduction goals. This headcount reduction is expected to impact both cost of goods sold and operating expenses worldwide.

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Stock-Based Compensation

We have four stock-based compensation plans, in addition to an employee stock purchase plan, with outstanding stock or stock options. We currently use the 2002 Long-Term Incentive Plan 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 $368 million for Fiscal 2007, compared to $17 million and $18 million for Fiscal 2006 and Fiscal 2005, respectively. The increase is due to the implementation of SFAS 123(R). We adopted SFAS 123(R) using the modified prospective transition method under SFAS 123(R) effective the first quarter of Fiscal 2007. Included in stock-based compensation for Fiscal 2007 is the fair value of stock-based awards earned during the year, including restricted stock, restricted stock units, and stock options, as well as the discount associated with stock purchased under our employee stock purchase plan. Prior to the adoption of SFAS 123(R), we accounted for our equity incentive plans under the intrinsic value recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees,* (APB 25) and its related interpretations. Accordingly, stock-based compensation for the fair value of employee stock options with no intrinsic value at the grant date and the discount associated with the stock purchase under our employee stock purchase plan was not recognized in net income prior to Fiscal 2007. For further discussion on stock-based compensation, see Note 6 of Notes to Consolidated Financial Statement included in Part II Item 8 Financial Statements and Supplementary Data.

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

As a result of our inability to timely file our Annual Report on Form 10-K for Fiscal 2007, we suspended the exercise of employee stock options, the vesting of restricted stock units, and the purchase of shares under our employee stock purchase plan. With the filing of this report and our other past due periodic reports, we are again current in our periodic reporting obligations and, accordingly, expect to resume the exercise of employee stock options by employees, the vesting of restricted stock units, and the purchase of shares under our employee stock purchase plan.

We agreed to pay cash to certain current and former employees who held in-the-money stock options (options that have an exercise price less than the current stock market price) that expired during the period of unexercisability. Within 45 days after we file this report, we will make payments relating to in-the-money stock options that expired in the second and third quarters of Fiscal 2008, which are expected to total approximately $113 million. We will not continue to pay cash for expired in-the-money stock options once the options again become exercisable.

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Investment and Other Income, net

The table below provides a detailed presentation of investment and other income, net for Fiscal 2007, Fiscal 2006, and Fiscal 2005.

	Fiscal Year Ended		
	February 2, 2007	February 3, 2006 As Restated	January 28, 2005 As Restated
		(in millions)	
Investment and other income, net:			
Investment income, primarily interest	$ 368	$ 308	$ 226
Gains (losses) on investments, net	(5)	(2)	6
Interest expense	(45)	(29)	(15)
CIT minority interest	(23)	(27)	(17)
Foreign exchange	(37)	3	16
Gain on sale of building	36		
Other	(19)	(27)	(19)
Investment and other income, net	$ 275	$ 226	$ 197

In Fiscal 2007 and Fiscal 2006, investment income increased year-over-year primarily due to rising interest rates, partially offset by a decrease in interest income earned on lower average balances of cash equivalents and investments.

Income Taxes

Our effective tax rate was 22.8%, 21.8%, and 31.5% for Fiscal 2007, 2006 and 2005, respectively. We expect our Fiscal 2008 effective tax rate to trend upwards primarily due to the impact of new U.S. transfer pricing rules and the impact of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48).

On October 22, 2004, the American Jobs Creation Act of 2004 was signed into law. Among other items, that act created a temporary incentive for U.S. multinationals to repatriate accumulated income earned outside the U.S. at an effective tax rate of 5.25%, versus the U.S. federal statutory rate of 35%. In the fourth quarter of Fiscal 2005, we recorded an initial estimated income tax charge of $280 million based on the decision to repatriate $4.1 billion of foreign earnings. This tax charge included an amount relating to a drafting oversight that Congressional leaders expected to correct in calendar year 2005. On May 10, 2005, the Department of Treasury issued further guidance that addressed the drafting oversight. In the second quarter of Fiscal 2006, we reduced our original estimate of the tax charge by $85 million as a result of the guidance issued by the Treasury Department. At February 3, 2006, we had completed the repatriation of the $4.1 billion in foreign earnings.

The differences between our effective tax rate and the U.S. federal statutory rate of 35% principally result from our geographical distribution of taxable income and permanent differences between the book and tax treatment of certain items. We reported an effective tax rate of approximately 22.8% for Fiscal 2007, as compared to 21.8% for Fiscal 2006. The increase in our effective tax rate is primarily due to the $85 million tax expense reduction discussed above and regulatory guidance issued by the IRS, offset by a higher proportion of our operating profits being generated in lower foreign tax jurisdictions during Fiscal 2007 as compared to the previous year. Our foreign earnings are generally taxed at lower rates than in the United States.

We adopted FIN 48 effective February 3, 2007. FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The adoption of FIN 48 resulted in a cumulative effect decrease to stockholders equity of approximately $62 million in the first quarter of Fiscal 2008.

Off-Balance Sheet Arrangements

Asset Securitization During Fiscal 2007, we continued to sell customer financing receivables to unconsolidated qualifying special purpose entities. The qualifying special purpose entities are bankruptcy remote legal entities with assets and liabilities separate from ours. The sole purpose of the qualifying special purpose entities is to facilitate the funding of finance receivables in the capital markets. We determined the amount of receivables to securitize based on our funding requirements in conjunction with specific selection criteria designed for the transaction. The qualifying special purpose entities have entered into financing arrangements with three multi-seller conduits that, in turn, issue asset-backed debt securities in the capital markets. Transfers of financing receivables are recorded in accordance with the provisions of Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities.* During Fiscal 2007 and Fiscal 2006, we sold $1.1 billion and $586 million, respectively, of customer receivables to unconsolidated qualifying special purpose entities. The principal balance of the securitized receivables at the end of Fiscal 2007 and Fiscal 2006 was $979 million and $552 million, respectively.

We retain the right to receive collections on securitized receivables in excess of amounts needed to pay interest and principal as well as other required fees. Upon the sale of the financing receivables, we record the present value of the excess cash flows as a retained interest, which typically results in a gain that ranges from 2% to 4% of the customer receivables sold. We service these securitized contracts and earn a servicing fee. Our securitization transactions generally do not result in servicing assets and liabilities, as the contractual fees are adequate compensation in relation to the associated servicing cost.

In estimating the value of the retained interest, we make a variety of financial assumptions, including pool credit losses, payment rates, and discount rates. These assumptions are supported by both our historical experience and anticipated trends relative to the particular receivable pool. We review our investments in retained interests periodically for impairment, based on their estimated fair value. Any resulting losses representing the excess of carrying value over estimated fair value that are other-than-temporary are recorded in earnings. However, unrealized gains are reflected in stockholders equity as part of accumulated other comprehensive income. In the first quarter of Fiscal 2008 we adopted SFAS 155 and, as a result, all gains and losses are recognized in income immediately and are no longer included in accumulated other comprehensive income. Retained interest balances and assumptions are disclosed in Note 7 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data.

Our securitization program contains structural features that could prevent further funding if the credit losses or delinquencies on the pool of sold receivables exceed specified levels. These structural features are within normal industry practice and are similar to comparable securitization programs in the marketplace. We do not expect that any of these features will have a material adverse impact on our ability to securitize financing receivables. We closely monitor our entire portfolio, including subprime assets, and take action relative to underwriting standards as necessary.

Liquidity, Capital Commitments, and Contractual Cash Obligations

Liquidity

Our cash balances are held in numerous locations throughout the world, including substantial amounts held outside of the U.S. Most of the amounts held outside of the U.S. could be repatriated to the U.S., but under current law, would be subject to U.S. federal income taxes, less applicable foreign tax credits. Repatriation of some foreign balances is restricted by local laws. We have provided for the U.S. federal tax liability on these amounts for financial statement purposes except for foreign earnings that are considered indefinitely reinvested outside of the U.S. Repatriation could result in additional U.S. federal income tax payments in future years. Where local restrictions prevent an efficient intercompany transfer of funds, our intent is that those cash balances would remain outside of the U.S., and we would meet our U.S. liquidity needs through operating cash flows, external borrowings, or both. We utilize a variety of tax planning and financing strategies with the objective of having our worldwide cash available in the locations in which it is needed.

In Fiscal 2007, we continued to maintain strong liquidity with cash flows from operations of $4.0 billion, compared to $4.8 billion in Fiscal 2006. We ended Fiscal 2007 with $12.4 billion in cash and investments, an increase of $689 million over the prior fiscal year-end. The following table summarizes our ending cash, cash equivalents, and investments and contains a summary of our Consolidated Statements of Cash Flows for the past three fiscal years:

	February 2, 2007	February 3, 2006 As Restated
	(in millions)	
Cash, cash equivalents, and investments:		
Cash and cash equivalents	$ 9,546	$ 7,054
Debt securities	2,784	4,606
Equity and other securities	115	96
Cash, cash equivalents and investments	$ 12,445	$ 11,756

	Fiscal Year Ended		
	February 2, 2007	February 3, 2006 As Restated	January 28, 2005 As Restated
		(in millions)	
Net cash flow provided by (used in):			
Operating activities	$ 3,969	$ 4,751	$ 5,821
Investing activities	1,003	4,149	(1,678)
Financing activities	(2,551)	(6,252)	(3,129)
Effect of exchange rate changes on cash and cash equivalents	71	(73)	46
Net increase in cash and cash equivalents	$ 2,492	$ 2,575	$ 1,060

Operating Activities Cash flows from operating activities during Fiscal 2007, 2006, and 2005 resulted primarily from net income, which represents our principal source of cash. In Fiscal 2007, the decrease in operating cash flows was primarily led by a decrease in net income slightly offset by changes in working capital. In Fiscal 2006, the decrease in cash provided by operating activities versus Fiscal 2005 is primarily due to changes in operating working capital accounts and slightly offset by an increase in net income.

Upon adopting SFAS 123(R) in the first quarter of Fiscal 2007, the excess tax benefits associated with employee stock compensation are classified as a financing activity; however, the offset reduces cash flows from operations. In Fiscal

2007, the excess tax benefit was $80 million. Prior to adopting SFAS 123(R), operating cash flows were impacted by income tax benefits that resulted from the exercise of employee stock options. These tax benefits totaled $224 million and $249 million in Fiscal 2006 and 2005, respectively. These benefits are the tax effects of corporate income tax deductions (that are considered taxable income to the employee) that represent the amount by which the fair value of our stock exceeds the option strike price on the day the employee exercises a stock option. The decline in tax benefits in Fiscal 2007 from Fiscal 2006 is due to fewer stock option exercises.

Key Performance Metrics Our direct business model allows us to maintain an efficient asset management system in comparison to our major competitors. We are capable of minimizing inventory risk while collecting amounts due from customers before paying vendors, thus allowing us to generate annual cash flows from operating activities that typically exceed net income. The following table presents the components of our cash conversion cycle for each of the past three fiscal years:

	February 2, 2007	February 3, 2006 As Restated	January 28, 2005 As Restated
Days of sales outstanding[(a)(d)]	31	29	27
Days of supply in inventory[(b)]	5	5	4
Days in accounts payable[(c)]	(78)	(77)	(73)
Cash conversion cycle	(42)	(43)	(42)

(a) Days of sales outstanding (DSO) is based on the ending net trade receivables and most recent quarterly revenue for each period. DSO includes the effect of product costs related to customer shipments not yet recognized as revenue that are classified in other current assets. At February 2, 2007, February 3, 2006, and January 28, 2005, DSO and days of customer shipments not yet recognized were 28 and 3 days, 26 and 3 days, and 24 and 3 days, respectively.

(b) Days of supply in inventory is based on ending inventory and most recent quarterly cost of sales for each period.

(c) Days in accounts payable is based on ending accounts payable and most recent quarterly cost of sales for each period.

(d) Financing receivables have been separately classified on the balance sheet beginning February 3, 2006. As a result, days of sales outstanding has been recalculated for January 28, 2005 to reflect the change in classification of certain items previously included in accounts receivable to financing receivables.

Our cash conversion cycle decreased one day at February 2, 2007 from February 3, 2006. This decline was driven by a two-day increase in days of sales outstanding largely attributed to higher percentage of our revenue coming from outside the U.S., where payment terms are customarily longer and a higher percentage of revenue occurring at the end of the period. This decline was offset by a one-day increase in days in accounts payable largely attributed to an increase in the number of suppliers with extended payment terms as compared to Fiscal 2006.

We defer the cost of revenue associated with customer shipments not yet recognized as revenue until they are delivered. These deferred costs are included in our reported days of sales outstanding because we believe it presents a more accurate presentation of our days of sales outstanding and cash conversion cycle. These deferred costs are recorded in other current assets in our Consolidated Statements of Financial Position and totaled $424 million, $417 million, and $361 million at February 2, 2007, February 3, 2006 and January 28, 2005, respectively.

Investing Activities Cash provided by investing activities during Fiscal 2007 was $1.0 billion, as compared to $4.1 billion provided in Fiscal 2006 and $1.7 billion used in Fiscal 2005. Cash generated or used in investing activities principally consists of net maturities and sales or purchases of investments, net of capital expenditures for property, plant, and equipment. In Fiscal 2007 compared to Fiscal 2006, we had a lower amount of proceeds from maturities and sales of investments, and this was partially offset by an increase in capital expenditures as we continued to focus on investing in our global infrastructure in order to support our rapid global growth.

Financing Activities Cash used in financing activities during Fiscal 2007 was $2.6 billion, as compared to $6.3 billion in Fiscal 2006 and $3.1 billion in Fiscal 2005. Financing activities primarily consist of the repurchase of our common stock, partially offset by proceeds from the issuance of common stock under employee stock plans and other items. In Fiscal 2007, the year-over-year decrease in cash used in financing activities is due primarily to the suspension of our share repurchase program in September 2006. During Fiscal 2007, we repurchased approximately 118 million shares at an aggregate cost of $3.0 billion compared to 204 million shares at an aggregate cost of $7.2 billion in Fiscal 2006 and 119 million shares at an aggregate cost of $4.2 billion in Fiscal 2005. In Fiscal 2006, the increase in share repurchases compared to Fiscal 2005 drove the year-over-year increase in cash used in financing activities.

We believe our ability to generate cash flows from operations on an annual basis will continue to be strong, driven mainly by our profitability, efficient cash conversion cycle, and the growth in our deferred enhanced services offerings. In order to augment our liquidity and provide us with additional flexibility, we implemented a commercial paper program with a supporting credit facility on June 1, 2006. Under the commercial paper program, we issue, from time-to-time, short-term unsecured notes in an aggregate amount not to exceed $1.0 billion. We use the proceeds for general corporate purposes, including funding Dell Financial Services L.P. (DFS) growth. At February 2, 2007, $100 million was outstanding under the program and due within 90 days. The weighted-average interest rate on these outstanding short-term borrowings was 5.3% at February 2, 2007. There were no outstanding advances under the commercial paper program as of October 26, 2007. See Note 3 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data for further discussion of our commercial paper program.

Capital Commitments

Redeemable Common Stock We inadvertently failed to register with the SEC the sale of some shares under certain employee benefit plans. As a result, certain purchasers of common stock pursuant to those plans may have the right to rescind their purchases for an amount equal to the purchase price paid for the shares, plus interest from the date of purchase. At February 2, 2007, we have classified approximately 5 million shares ($111 million) that may be subject to the rescissionary rights outside stockholders equity, because the redemption features are not within our control. These shares have always been treated as outstanding for financial reporting purposes. Certain purchasers of common stock pursuant to these plans who sold their shares for less than the purchase price may have the right to rescind their purchases for an amount of cash equal to the purchase price plus interest minus the proceeds of the sale.

Share Repurchase Program We have a share repurchase program that authorizes us to purchase shares of common stock in order to increase shareholder value and manage dilution resulting from shares issued under our equity compensation plans. However, we do not currently have a policy that requires the repurchase of common stock in conjunction with share-based payment arrangements. At February 2, 2007, our share repurchase program authorized the purchase of common stock at an aggregate cost not to exceed $30.0 billion, of which we have already repurchased $28.6 billion.

We typically repurchase shares of common stock through a systematic program of open market purchases. The significant decrease in share repurchases during Fiscal 2007 as compared to Fiscal 2006 was due to the temporary suspension of our share repurchase program in September 2006. We anticipate recommencing our share repurchase program in the fourth quarter of Fiscal 2008. For more information regarding share repurchases, see Part II Item 5 Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Capital Expenditures During Fiscal 2007, we spent $896 million on property, plant, and equipment primarily on our global expansion efforts and infrastructure investments in order to support future growth. Product demand and mix, as well as ongoing efficiencies in operating and information technology infrastructure, influence the level and prioritization of our capital expenditures. Capital expenditures for Fiscal 2008 (related to our continued expansion worldwide, the need to increase manufacturing capacity, and leasing arrangements to facilitate customer sales) are currently expected to reach approximately $900 million. These expenditures are expected to be funded from our cash flows from operating activities.

Restricted Cash Pursuant to an agreement between DFS and CIT, we are required to maintain escrow cash accounts associated with certain reserves related to finance receivables funded by CIT and serviced by DFS. Specific to the consolidation of DFS, $416 million and $453 million in restricted cash is included in other current assets at February 2, 2007 and February 3, 2006, respectively.

Contractual Cash Obligations

The following table summarizes our contractual cash obligations at February 2, 2007.

	Payments Due by Period (in millions)				
	Total	Fiscal 2008	Fiscal 2009-2010	Fiscal 2011-2012	Beyond
Contractual cash obligations:					
Long-term debt, including current portion[b]	$ 502	$ 1	$ 204	$	$ 297
Operating leases	450	79	128	82	161
Advances under credit facilities	222	187	35		
Purchase obligations	570	532	38		
DFS purchase commitment	345		345		
Interest	590	73	129	43	345
Current portion of uncertain tax positions[a]	22	22			
Contractual cash obligations	$ 2,701	$ 894	$ 879	$ 125	$ 803

(a) The current portion of uncertain tax positions does not include approximately $1.1 billion in additional liabilities associated with uncertain tax positions. We are unable to reliably estimate the expected payment dates for these additional liabilities.

(b) Changes in the fair value of the debt where the interest rate is hedged with interest rate swap agreements are not included in the contractual cash obligations for debt as the debt is expected to be settled at par at its scheduled maturity date.

Long-Term Debt At February 2, 2007, we had outstanding $200 million in Senior Notes with the principal balance due April 15, 2008 and $300 million in Senior Debentures with the principal balance due April 15, 2028. For additional information regarding these issuances, see Note 3 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data.

Concurrent with the issuance of the Senior Notes and Senior Debentures, we entered into interest rate swap agreements converting our interest rate exposure from a fixed rate to a floating rate basis to better align the associated interest rate characteristics to our cash and investments portfolio. The interest rate swap agreements have an aggregate notional amount of $200 million maturing April 15, 2008 and $300 million maturing April 15, 2028. The floating rates are based on three-month London Interbank Offered Rates plus 0.41% and 0.79% for the Senior Notes and

Senior Debentures, respectively. As a result of the interest rate swap agreements, our effective interest rates for the Senior Notes and Senior Debentures were 5.8% and 6.1%, respectively, for Fiscal 2007.

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

Advances Under Credit Facilities DFS maintains credit facilities with CIT that provide a maximum capacity of $750 million to fund leased equipment. These borrowings are secured by DFS assets and contain certain customary restrictive covenants. Interest on the outstanding loans is paid quarterly and calculated based on an average of the two- and three-year U.S. Treasury Notes plus 4.45%. DFS is required to make quarterly principal payments if the value of the leased equipment securing the loans is less than the outstanding principal balance. At February 2, 2007 and February 3, 2006, outstanding advances from CIT totaled $122 million and $133 million, respectively, of which $87 million and $63 million, respectively, is included in short-term borrowings and $35 million and $70 million, respectively, is included in long-term debt on our Consolidated Statement of Financial Position. The credit facilities expire on the earlier of (i) the dissolution of DFS; (ii) the purchase of CIT s ownership interest in DFS; or (iii) the acceleration of the maturity of the debt by CIT arising from a default.

During Fiscal 2007, we implemented a $1.0 billion commercial paper program with a supporting $1.0 billion senior unsecured revolving credit facility. This program allows us to obtain favorable short-term borrowing rates. At February 2, 2007, $100 million was outstanding under the commercial paper program and is included in short-term borrowings on our Consolidated Statement of Financial Position.

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Purchase Obligations Purchase obligations are defined as contractual obligations to purchase goods or services that are enforceable and legally binding on us. These obligations specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. Purchase obligations do not include contracts that may be cancelled without penalty.

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

DFS Purchase Commitment Included in the table above is our maximum purchase obligation to purchase CIT s 30% interest in DFS at the expiration of the joint venture on January 29, 2010, for a purchase price ranging from approximately $100 million to $345 million. We currently expect that the purchase price will likely be towards the upper end of the range. See Note 7 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data.

Interest See Note 3 of Notes to the Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data for further discussion of our long-term debt and related interest expense.

Market Risk

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

Foreign Currency Hedging Activities

Our objective in managing our exposures to foreign currency exchange rate fluctuations is to reduce the impact of adverse fluctuations on earnings and cash flows associated with foreign currency exchange rate changes. Accordingly, we utilize foreign currency option contracts and forward contracts to hedge our exposure on forecasted transactions and firm commitments in over 20 currencies in which we transact business. The principal currencies hedged during Fiscal 2007 were the Euro, British Pound, Japanese Yen, and Canadian Dollar. We monitor our foreign currency exchange exposures to ensure the overall effectiveness of our foreign currency hedge positions. However, there can be no assurance that our foreign currency hedging activities will substantially offset the impact of fluctuations in currency exchange rates on our results of operations and financial position.

Based on our foreign currency cash flow hedge instruments outstanding at February 2, 2007 and February 3, 2006, we estimate a maximum potential one-day loss in fair value of approximately $41 million and $46 million, respectively, using a Value-at-Risk (VAR) model. The VAR model estimates were made assuming normal market conditions and a 95% confidence level. We used a Monte Carlo simulation type model that valued our foreign currency instruments against a thousand randomly generated market price paths. Forecasted transactions, firm commitments, fair value hedge instruments, and accounts receivable and payable denominated in foreign currencies were excluded from the model. The VAR model is a risk estimation tool, and as such, is not intended to represent actual losses in fair value that will be incurred. Additionally, as we utilize foreign currency instruments for hedging forecasted and firmly committed transactions, a loss in fair value for those instruments is generally offset by increases in the value of the underlying exposure. As a result of our hedging activities, foreign currency fluctuations did not have a material impact on our results of operations and financial position during Fiscal 2007, 2006, and 2005.

Cash and Investments

At February 2, 2007, we had $12.4 billion of total cash, cash equivalents and investments, all of which are recorded at fair value. Our investment policy 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. Based on our investment portfolio and interest rates at February 2, 2007, a 100 basis point increase or decrease in interest rates would result in a decrease or increase of approximately $46 million in the fair value of the investment portfolio. Changes in interest rates may affect the fair value of the investment portfolio; however, unrealized gains or losses are not recognized in net income unless the investments are sold or the loss is considered to be other than temporary.

Debt

We have entered into interest rate swap arrangements that convert our fixed interest rate expense to a floating rate basis to better align the associated interest rate characteristics to our cash and investments portfolio. The interest rate swaps qualify for hedge accounting treatment pursuant to SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. We have designated the issuance of the Senior Notes and Senior Debentures and the related interest rate swap agreements as an integrated transaction. The changes in the fair value of the interest rate swaps are reflected in the carrying value of the interest rate swap on the balance sheet. The carrying value of the debt on the balance sheet is adjusted by an equal and offsetting amount. The differential to be paid or received on the interest rate swap agreements is accrued and recognized as an adjustment to interest expense as interest rates change.

We have a $1.0 billion commercial paper program with a supporting $1.0 billion senior unsecured revolving credit facility. This program allows us to obtain favorable short-term borrowing rates. At February 2, 2007, $100 million was outstanding under the commercial paper program, and the weighted-average interest rate on these outstanding short-term borrowings was 5.3%. There were no outstanding advances under the commercial paper program as of October 26, 2007. We use the proceeds of the program and facility for general corporate purposes, including funding DFS growth.

Risk Factors Affecting Our Business and Prospects

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

general economic, business, and industry conditions;

our ability to maintain a cost advantage over our competitors,

local economic and labor conditions, political instability, unexpected regulatory changes, trade protection measures, tax laws, copyright levies, and fluctuations in foreign currency exchange rates;

our ability to accurately predict product, customer, and geographic sales mix and seasonal sales trends;

information technology and manufacturing infrastructure failures;

our ability to effectively manage periodic product transitions;

our ability to successfully remediate identified internal control deficiencies;

our reliance on third-party suppliers for quality product components, including reliance on several single-source or limited-source suppliers;

our ability to access the capital markets;

litigation and governmental investigations or proceedings arising out of or related to accounting and financial reporting matters;

our acquisition of other companies may present new risks;

our ability to properly manage the distribution of our products and services;

effective hedging of our exposure to fluctuations in foreign currency exchange rates and interest rates;

obtaining licenses to intellectual property developed by others on commercially reasonable and competitive terms;

our ability to attract, retain, and motivate key personnel;

loss of government contracts;

expiration of tax holidays or favorable tax rate structures;

changing environmental laws; and

the effect of armed hostilities, terrorism, natural disasters; and public health issues.

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

Critical Accounting Policies

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

Revenue Recognition and Related Allowances We frequently enter into sales arrangements with customers that contain multiple elements or deliverables such as hardware, software, peripherals, and services. Judgments and estimates are necessary to ensure compliance with GAAP. These judgments relate to the allocation of the proceeds received from an arrangement to the multiple elements, the determination of whether any undelivered elements are essential to the functionality of the delivered elements, and the appropriate timing of revenue recognition. We offer extended warranty and service contracts to customers that extend and/or enhance the technical support, parts, and labor coverage offered as part of the base warranty included with the product. Revenue from extended warranty and service contracts, for which we are obligated to perform, is recorded as deferred revenue and subsequently recognized over the term of the contract or when the service is completed. Revenue from sales of third-party extended warranty and service contracts, for which we are not obligated to perform, is recognized on a net basis at the time of sale, as we do not meet the criteria for gross recognition under Emerging Issues Task Force 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent.*

Estimates that further impact revenue recognition relate primarily to customer sales returns and allowance for doubtful accounts. Both estimates are reasonably predictable based on historical experience. The primary factors affecting our accrual for estimated customer returns include estimated return rates as well as the number of units shipped that still have a right of return as of the balance sheet date. Factors affecting our allowance for doubtful accounts include historical and anticipated customer default rates of the various aging categories of accounts receivable. Each quarter, we reevaluate our estimates to assess the adequacy of our recorded accruals for customer returns and allowance for doubtful accounts and adjust the amounts as necessary. The expense associated with the allowance for doubtful accounts is recognized as sales, general, and administrative expense.

Warranty We record warranty liabilities at the time of sale for the estimated costs that may be incurred under the terms of the limited warranty. The specific warranty terms and conditions vary depending upon the product sold and country in which we do business, but generally include technical support, parts, and labor over a period ranging from one to three years. Factors that affect our warranty liability include the number of installed units currently under warranty, historical and anticipated rates of warranty claims on those units, and cost per claim to satisfy our warranty obligation. The anticipated rate of warranty claims is the primary factor impacting our estimated warranty obligation. The other factors are less significant due to the fact that the average remaining aggregate warranty period of the covered installed base is approximately 20 months, repair parts are generally already in stock or available at pre-determined prices, and labor rates are generally arranged at pre-established amounts with service providers. Warranty claims are reasonably predictable based on historical experience of failure rates. If actual results differ from our estimates, we revise our estimated warranty liability to reflect such changes. Each quarter, we reevaluate our estimates to assess the adequacy of the recorded warranty liabilities and adjust the amounts as necessary.

Income Taxes We calculate a provision for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized by identifying the temporary differences arising from the different treatment of items for tax and accounting purposes. In determining the future tax consequences of events that have been recognized in our financial statements or tax returns, judgment is required. Differences between the anticipated and actual outcomes of these future tax consequences could have a material impact on our consolidated results of operations or financial position.

Recently Issued Accounting Pronouncements

See Note 1 of Notes to Consolidated Financial Statements included in Part II Item 8 Financial Statements and Supplementary Data for a description of recently issued accounting pronouncements, including the expected dates of adoption and estimated effects on our results of operations, financial position, and cash flows.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Response to this item is included in Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Market Risk.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

All other schedules are omitted because they are not applicable.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Dell Inc.:

We have completed integrated audits of Dell Inc. s consolidated financial statements and of its internal control over financial reporting as of February 2, 2007, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Dell Inc. and its subsidiaries (the Company) at February 2, 2007 and February 3, 2006, and the results of their operations and their cash flows for each of the three years in the period ended February 2, 2007 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company has restated its fiscal 2006 and 2005 consolidated financial statements.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in fiscal 2007.

Internal control over financial reporting

Also, we have audited management s assessment, included in Management s Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company did not maintain effective internal control over financial reporting as of February 2, 2007, because the Company did not maintain an effective control environment due to the failure to maintain a tone and control consciousness that consistently emphasized strict adherence to accounting principles generally accepted in the United States of America and the failure to maintain a sufficient complement of personnel with an appropriate level of accounting knowledge, experience and training, and because the Company did not maintain effective controls over the period-end reporting process, including journal entries, account reconciliations, and the accounting for accrued liabilities, reserves and operating expenses, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management s assessment and on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weaknesses as of February 2, 2007 have been identified and included in management s assessment:

Control environment The Company did not maintain an effective control environment. The control environment, which is the responsibility of senior management, sets the tone of the organization, influences the control consciousness of its people, and is the foundation for all other components of internal control over financial reporting. Specifically:

- The Company did not maintain a tone and control consciousness that consistently emphasized strict adherence to accounting principles generally accepted in the United States of America. This control deficiency, in some instances, included inappropriate accounting decisions and entries that appear to have been largely motivated to achieve desired accounting results and management override of controls. In a number of instances, information critical to an effective review of transactions and accounting entries was not disclosed to internal and external auditors.

- The Company did not maintain a sufficient complement of personnel with an appropriate level of accounting knowledge, experience, and training in the application of accounting principles generally accepted in the United States of America commensurate with the Company s financial reporting requirements and business environment.

The control environment material weaknesses described above contributed to the material weaknesses related to the Company s period-end financial reporting process described below.

Period-end financial reporting process The Company did not maintain effective controls over the period-end financial reporting process, including controls with respect to the review, supervision, and monitoring of accounting operations. Specifically:

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Journal entries, both recurring and nonrecurring, were not always accompanied by sufficient supporting documentation and were not adequately reviewed and approved for validity, completeness and accuracy;

- Account reconciliations over balance sheet accounts were not always properly and timely performed, and the reconciliations and their supporting documentation were not consistently reviewed for completeness, accuracy and timely resolution of reconciling items; and

- The Company did not design and maintain effective controls to ensure the completeness, accuracy and timeliness of the recording of accrued liabilities, reserves and operating expenses.

These material weaknesses resulted in the restatement of the Company s fiscal 2006 and 2005 annual and interim financial statements and resulted in adjustments, including audit adjustments, to the Company s fiscal 2007 annual and interim financial statements. Additionally, these material weaknesses could result in misstatements of substantially all of the Company s financial statement accounts that would result in a material misstatement of the Company s annual or interim consolidated financial statements that would not be prevented or detected.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the fiscal 2007 consolidated financial statements, and our opinion regarding the effectiveness of the Company s internal control over financial reporting does not affect our opinion on those consolidated financial statements.

In our opinion, management s assessment that the Company did not maintain effective internal control over financial reporting as of February 2, 2007, is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Framework* issued by the COSO. Also, in our opinion, because of the effects of the material weaknesses described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of February 2, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the COSO.

PricewaterhouseCoopers LLP

Austin, Texas
October 29, 2007

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DELL INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in millions)

	February 2, 2007	February 3, 2006 As Restated
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,546	$ 7,054
Short-term investments	752	2,016
Accounts receivable, net	4,622	4,082
Financing receivables, net	1,530	1,366
Inventories	660	588
Other	2,829	2,688
Total current assets	19,939	17,794
Property, plant, and equipment, net	2,409	1,993
Investments	2,147	2,686
Long-term financing receivables, net	323	325
Other non-current assets	817	454
Total assets	$ 25,635	$ 23,252
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	$ 188	$ 65
Accounts payable	10,430	9,868
Accrued and other	7,173	6,240
Total current liabilities	17,791	16,173
Long-term debt	569	625
Other non-current liabilities	2,836	2,407
Total liabilities	21,196	19,205
Commitments and contingencies (Note 9)		
Redeemable common stock and capital in excess of $.01 par value; 5 shares issued and outstanding (Note 5)	111	
Stockholders equity:		

Preferred stock and capital in excess of $.01 par value; shares issued and outstanding: none		
Common stock and capital in excess of $.01 par value; shares authorized: 7,000; shares issued: 3,307 and 2,818, respectively; shares outstanding: 2,226 and 2,330, respectively	10,107	9,503
Treasury stock at cost: 606 and 488 shares, respectively	(21,033)	(18,007)
Retained earnings	15,282	12,699
Accumulated other comprehensive loss	(28)	(101)
Other		(47)
Total stockholders equity	4,328	4,047
Total liabilities and equity	$ 25,635	$ 23,252

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

DELL INC.

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

	Fiscal Year Ended		
	February 2, 2007	February 3, 2006 As Restated	January 28, 2005 As Restated
Net revenue	$ 57,420	$ 55,788	$ 49,121
Cost of net revenue[(1)]	47,904	45,897	40,103
Gross margin	9,516	9,891	9,018
Operating expenses:			
Selling, general, and administrative[(1)]	5,948	5,051	4,352
Research, development, and engineering[(1)]	498	458	460
Total operating expenses	6,446	5,509	4,812
Operating income	3,070	4,382	4,206
Investment and other income, net	275	226	197
Income before income taxes	3,345	4,608	4,403
Income tax provision	762	1,006	1,385
Net income	$ 2,583	$ 3,602	$ 3,018
Earnings per common share:			
Basic	$ 1.15	$ 1.50	$ 1.20
Diluted	$ 1.14	$ 1.47	$ 1.18
Weighted-average shares outstanding:			
Basic	2,255	2,403	2,509
Diluted	2,271	2,449	2,568

(1) Cost of revenue and operating expenses for the fiscal year ended February 2, 2007 include stock-based compensation expense pursuant to Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment.* See Note 6 of Notes to Consolidated Financial Statements for additional information.

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

DELL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Fiscal Year Ended		
	February 2, 2007	**February 3, 2006 As Restated**	**January 28, 2005 As Restated**
Cash flows from operating activities:			
Net income	$ 2,583	$ 3,602	$ 3,018
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	471	394	331
Stock-based compensation	368	17	18
Excess tax benefits from stock-based compensation	(80)		
Tax benefits from employee stock plans		224	249
Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies	37	(3)	(16)
Other	61	157	61
Changes in:			
Operating working capital	397	(53)	1,772
Non-current assets and liabilities	132	413	388
Net cash provided by operating activities	3,969	4,751	5,821
Cash flows from investing activities:			
Investments:			
Purchases	(8,343)	(6,796)	(13,006)
Maturities and sales	10,320	11,692	11,843
Capital expenditures	(896)	(747)	(515)
Acquisition of business, net of cash received	(118)		
Proceeds from sale of building	40		
Net cash provided by (used in) investing activities	1,003	4,149	(1,678)
Cash flows from financing activities:			
Repurchase of common stock	(3,026)	(7,249)	(4,219)
Issuance of common stock under benefit plans	314	1,051	1,112
Excess tax benefits from stock-based compensation	80		
Issuance of commercial paper, net	100		
Other	(19)	(54)	(22)
Net cash used in financing activities	(2,551)	(6,252)	(3,129)

Effect of exchange rate changes on cash and cash equivalents		71		(73)		46
Net increase in cash and cash equivalents		2,492		2,575		1,060
Cash and cash equivalents at beginning of year		7,054		4,479		3,419
Cash and cash equivalents at end of year	$	9,546	$	7,054	$	4,479

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

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DELL, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
(in millions)

	Common Stock and Capital in Excess of Par Value		Treasury Stock			Accumulated Other		
	Issued Shares	Amount	Shares	Amount	Retained Earnings	Comprehensive Loss	Other	Total
Balances at January 30, 2004 (Reported)	2,721	$ 6,823	165	$ (6,539)	$ 6,131	$ (83)	$ (52)	$ 6,280
Cumulative impact of restatement					(52)	10		(42)
Balances at January 30, 2004 (Restated)	2,721	6,823	165	(6,539)	6,079	(73)	(52)	6,238
Net income					3,018			3,018
Change in net unrealized loss on investments, net of taxes of $16						(52)		(52)
Foreign currency translation adjustments						1		1
Change in net unrealized loss on derivative instruments, net of taxes of $21						46		46
Total comprehensive income								3,013
Stock issuances under employee plans, including tax benefits	48	1,372						1,372
Repurchases			119	(4,219)				(4,219)
Other							8	8
Balances at January 28, 2005 (Restated)	2,769	8,195	284	(10,758)	9,097	(78)	(44)	6,412
Net income					3,602			3,602
Change in net unrealized loss on investments, net of taxes of $1						(24)		(24)
Foreign currency translation adjustments						(8)		(8)

Change in net unrealized loss on derivative instruments, net of taxes of $4						9		9
Total comprehensive income								3,579
Stock issuances under employee plans, including tax benefits	49	1,308						1,308
Repurchases			204	(7,249)				(7,249)
Other							(3)	(3)
Balances at February 3, 2006 (Restated)	2,818	9,503	488	(18,007)	12,699	(101)	(47)	4,047
Net income					2,583			2,583
Change in net unrealized loss on investments, net of taxes of $12						31		31
Foreign currency translation adjustments						(11)		(11)
Change in net unrealized gain on derivative instruments, net of taxes of $11						30		30
Valuation of retained interests in securitized assets, net of taxes of $7						23		23
Total comprehensive income								2,656
Stock issuances under employee plans	14	196						196
Repurchases			118	(3,026)				(3,026)
Stock-based compensation expense under SFAS 123(R)		368						368
Tax benefit from employee stock plans		56						56
Other and shares issued to subsidiaries	475	(16)					47	31
Balances at February 2, 2007	3,307	$ 10,107	606	$ (21,033)	$ 15,282	$ (28)	$	$ 4,328

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

DELL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 Description of Business and Summary of Significant Accounting Policies

Description of Business Dell Inc., a Delaware corporation, and its consolidated subsidiaries (collectively referred to as Dell) designs, develops, manufactures, markets, sells, and supports a wide range of computer systems and services that are customized to customer requirements. Dell offers a broad range of product categories, including desktop computer systems, servers and networking products, mobility products, software and peripherals, and enhanced services. Dell markets and sells its products and services directly to its customers, which include large corporate, government, healthcare, and education accounts, as well as small-to-medium businesses and individual customers.

Fiscal Year Dell s fiscal year is the 52- or 53-week period ending on the Friday nearest January 31. The fiscal year ending February 2, 2007 included 52 weeks. The fiscal year ending February 3, 2006 included 53 weeks, and the fiscal year ending January 28, 2005 included 52 weeks.

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

Dell is currently a partner in Dell Financial Services L.P. (DFS), a joint venture with CIT Group, Inc. (CIT). The joint venture allows Dell to provide its customers with various financing alternatives. Dell consolidates DFS financial results in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46R (FIN 46R) as Dell is the primary beneficiary. See Note 7 of Notes to Consolidated Financial Statements.

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

Cash and Cash Equivalents All highly liquid investments, including credit card receivables, with original maturities of three months or less at date of purchase are carried at cost, which approximates fair value, and are considered to be cash equivalents. All other investments not considered to be cash equivalents are separately categorized as investments.

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

Financing Receivables Financing receivables primarily consist of fixed-term loans and leases and revolving loans. Dell sells certain finance receivables to unconsolidated qualifying special purpose entities in securitization transactions. These receivables are removed from the Consolidated Statement of Financial Position at the time they are sold. Receivables are considered sold when the receivables are transferred beyond the reach of Dell s creditors, the transferee has the right to pledge or exchange the assets, and Dell has surrendered control over the rights and obligations of the receivables. Gains and losses from the sale of fixed-term loans and leases and revolving loans are recognized in the period the sale occurs, based upon the relative fair value of the assets sold and the remaining retained interests.

DELL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Property, Plant, and Equipment Property, plant, and equipment are carried at depreciated cost. Depreciation is provided using the straight-line method over the estimated economic lives of the assets, which range from ten to thirty years for buildings and two to five years for all other assets. Leasehold improvements are amortized over the shorter of five years or the lease term. Gains or losses related to retirements or disposition of fixed assets are recognized in the period incurred. Dell performs reviews for the impairment of fixed assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Dell capitalizes eligible internal-use software development costs incurred subsequent to the completion of the preliminary project stage. Development costs are amortized over the shorter of the expected useful life of the software or five years.

Foreign Currency Translation The majority of Dell s international sales are made by international subsidiaries, most of which have the U.S. dollar as their functional currency. Dell s subsidiaries that do not have the U.S. dollar as their functional currency translate assets and liabilities at current rates of exchange in effect at the balance sheet date. Revenue and expenses from these international subsidiaries are translated using the monthly average exchange rates in effect for the period in which the items occur. The resulting gains and losses from these foreign currency translation adjustments totaled a $33 million loss, $22 million loss, and $14 million loss at February 2, 2007, February 3, 2006 and January 28, 2005, respectively, and are included as a component of accumulated other comprehensive income (loss) in stockholders equity.

Local currency transactions of international subsidiaries that have the U.S. dollar as the functional currency are remeasured into U.S. dollars using current rates of exchange for monetary assets and liabilities and historical rates of exchange for nonmonetary assets and liabilities. Gains and losses from remeasurement of monetary assets and liabilities are included in investment and other income, net.

Hedging Instruments Dell applies Statement of Financial Accounting Standards (SFAS) No. 133 (SFAS 133), *Accounting for Derivative Instruments and Hedging Activities*, as amended, which establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 requires Dell to recognize all derivatives as either assets or liabilities in its Consolidated Statements of Financial Position and measure those instruments at fair value. Dell uses derivative instruments to hedge foreign exchange risk and interest rate risk.

Dell uses purchased option and forward contracts designated as cash flow hedges to protect against the foreign currency exchange risk inherent in its forecasted transactions denominated in currencies other than the U.S. dollar. According to SFAS 133, designated hedging instruments qualify for cash flow hedge accounting if all of the following criteria are met: at inception of the hedge, there is formal documentation of the hedging relationship and the entity s risk management objective for undertaking the hedge; both at hedge inception and on an ongoing basis, the hedging relationship is expected to be highly effective; the forecasted transaction is specifically identified; the occurrence of the forecasted transaction is probable; and the forecasted transaction is a transaction with a party external to the reporting entity. If the derivative qualifies for cash flow hedge accounting, the effective portion of the change in the fair value of the derivative is initially deferred in comprehensive income (loss), net of tax. The ineffective portion of the change in the fair value of a cash flow hedge is recognized currently in earnings and is reported as a component of investment and other income, net. Dell also uses forward contracts to hedge monetary assets and liabilities, primarily receivables and payables, denominated in a foreign currency. These contracts are not designated as hedging instruments under SFAS 133, and therefore, the change in the instrument s fair value is recognized currently in earnings and is reported as a component of investment and other income, net.

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DELL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Dell s interest rate swap agreements are designated as fair value hedges. See Note 3 of Notes to Consolidated Financial Statements below for further discussion of hedging instruments.

Treasury Stock Effective with the beginning of the second quarter of Fiscal 2002, Dell began holding repurchased shares of its common stock as treasury stock. Prior to that date, Dell retired all such repurchased shares, which were recorded as a reduction to retained earnings. Dell accounts for treasury stock under the cost method and includes treasury stock as a component of stockholders equity.

Revenue Recognition Net revenue includes sales of hardware, software and peripherals, and services (including extended service contracts and professional services). These products and services are sold either separately or as part of a multiple-element arrangement. Dell allocates revenue from multiple-element arrangements to the elements based on the relative fair value of each element, which is generally based on the relative sales price of each element when sold separately. The allocation of fair value for a multiple-element arrangement involving software is based on vendor specific objective evidence (VSOE), or in the absence of VSOE for delivered elements, the residual method. Under the residual method, Dell allocates revenue to software licenses at the inception of the license term when VSOE for all undelivered elements, such as Post Contract Customer Support (PCS), exists and all other revenue recognition criteria have been satisfied. In the absence of VSOE for undelivered elements, revenue is deferred and subsequently recognized over the term of the arrangement. For sales of extended warranties with a separate contract price, Dell defers revenue equal to the separately stated price. Revenue associated with undelivered elements is deferred and recorded when delivery occurs. Product revenue is recognized, net of an allowance for estimated returns, when both title and risk of loss transfer to the customer, provided that no significant obligations remain. Revenue from extended warranty and service contracts, for which Dell is obligated to perform, is recorded as deferred revenue and subsequently recognized over the term of the contract or when the service is completed. Revenue from sales of third-party extended warranty and service contracts or software PCS, for which Dell is not obligated to perform, and for which Dell does not meet the criteria for gross revenue recognition under EITF 99-19 is recognized on a net basis. All other revenue is recognized on a gross basis.

Dell defers the cost of shipped products awaiting revenue recognition until the goods are delivered and revenue is recognized. In-transit product shipments to customers totaled $424 million and $417 million as of February 2, 2007 and February 3, 2006, respectively, and are included in other current assets on Dell s Consolidated Statement of Financial Position.

Warranty Dell records warranty liabilities at the time of sale for the estimated costs that may be incurred under its limited warranty. The specific warranty terms and conditions vary depending upon the product sold and country in which Dell does business, but generally includes technical support, parts, and labor over a period ranging from one to three years. Factors that affect Dell s warranty liability include the number of installed units currently under warranty, historical and anticipated rates of warranty claims on those units, and cost per claim to satisfy Dell s warranty obligation. The anticipated rate of warranty claims is the primary factor impacting the estimated warranty obligation. The other factors are less significant due to the fact that the average remaining aggregate warranty period of the covered installed base is approximately 20 months, repair parts are generally already in stock or available at pre-determined prices, and labor rates are generally arranged at pre-established amounts with service providers. Warranty claims are relatively predictable based on historical experience of failure rates. If actual results differ from the estimates, Dell revises its estimated warranty liability. Each quarter, Dell reevaluates its estimates to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Vendor Rebates Dell may receive consideration from vendors in the normal course of business. Certain of these funds are rebates of purchase price paid and others are related to reimbursement of costs incurred by Dell to sell the vendor s products. Dell s policy for accounting for these funds is in accordance with EITF 02-16, *Accounting by a Customer (Including a Reseller) for Certain Consideration Received*

DELL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

from a Vendor. The funds are recognized as a reduction of cost of goods sold and inventory if the funds are a reduction of the price of the vendor s products. If the consideration is a reimbursement of costs incurred by Dell to sell or develop the vendor s products, then the consideration is classified as a reduction of that cost in the income statement, most often operating expenses. In order to be recognized as a reduction of operating expenses, the reimbursement must be for a specific, incremental, identifiable cost incurred by Dell in selling or developing the vendor s products or services.

Shipping Costs Dell s shipping and handling costs are included in cost of sales in the accompanying Consolidated Statements of Income for all periods presented.

Selling, General, and Administrative Selling expenses include items such as sales commissions, marketing and advertising costs, and contractor services. Advertising costs are expensed as incurred and were $836 million, $773 million, and $582 million during Fiscal 2007, 2006, and 2005, respectively. General and administrative expenses include items for Dell s administrative functions, such as Finance, Legal, Human Resources, and information technology support. These functions include costs for items such as salaries, maintenance and supplies, insurance, depreciation expense, and allowance for doubtful accounts.

Research, Development, and Engineering Costs Research, development, and engineering costs are expensed as incurred, in accordance with SFAS 2, *Accounting for Research and Development Costs*. Research, development, and engineering expenses primarily include payroll and headcount related costs, contractor fees, infrastructure costs, and administrative expenses directly related to research and development support.

Website Development Costs Dell expenses, as incurred, the costs of maintenance and minor enhancements to the features and functionality of its websites.

Income Taxes Deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Comprehensive Income Dell s comprehensive income is comprised of net income, unrealized gains and losses on marketable securities classified as available-for-sale, unrealized gains and losses related to the change in valuation of retained interests in securitized assets, foreign currency translation adjustments, and unrealized gains and losses on derivative financial instruments related to foreign currency hedging. Upon the adoption of SFAS 155, all gains and losses in valuation of retained interests in securitized assets are recognized in income immediately and no longer included in accumulated other comprehensive income beginning the first quarter Fiscal 2008.

Earnings Per Common Share Basic earnings per share is based on the weighted-average effect of all common shares issued and outstanding, and is calculated by dividing net income by the weighted-average shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted-average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming exercise or conversion of all potentially dilutive common shares outstanding. Dell excludes equity instruments from the calculation of diluted earnings per share if the effect of including such instruments is antidilutive. Accordingly, certain employee stock options have been excluded from the calculation of diluted earnings per share totaling 268 million, 127 million, and 103 million shares during Fiscal 2007, 2006, and 2005, respectively.

In December 2006, Dell modified the organizational structure of certain subsidiaries to achieve more integrated Dell global operations and to provide various financial, operational, and tax efficiencies. In connection with this internal restructuring, Dell issued 475 million shares of common stock to a wholly-

DELL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

owned subsidiary. Pursuant to Accounting Research Bulletin 51, *Consolidated Financial Statements (as amended)*, these shares are not considered to be outstanding on Dell s consolidated financial statements.

The following table sets forth the computation of basic and diluted earnings per share for each of the past three fiscal years:

	Fiscal Year Ended		
	February 2, 2007	**February 3, 2006 As Restated**	**January 28, 2005 As Restated**
	(in millions, except per share amounts)		
Numerator:			
Net income	$ 2,583	$ 3,602	$ 3,018
Denominator:			
Weighted-average shares outstanding:			
Basic	2,255	2,403	2,509
Effect of dilutive options, restricted stock units, restricted stock, and other	16	46	59
Diluted	2,271	2,449	2,568
Earnings per common share:			
Basic	$ 1.15	$ 1.50	$ 1.20
Diluted	$ 1.14	$ 1.47	$ 1.18

Stock-Based Compensation   At February 2, 2007, Dell had four stock-based compensation plans and an employee stock purchase plan with outstanding stock or stock options.

Effective February 4, 2006, Dell adopted SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)), using the modified prospective transition method which does not require revising the presentation in prior periods for stock-based compensation. Under this transition method, stock-based compensation expense for Fiscal 2007 includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested at February 4, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). Stock-based compensation expense for all stock-based compensation awards granted after February 3, 2006 is based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Dell recognizes this compensation expense net of an estimated forfeiture rate over the requisite service period of the award, which is generally the vesting term of five years for stock options and five-to-seven years for restricted stock awards. In March 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the SEC s interpretation of SFAS 123(R) and the valuation of share-based payments for public companies. Dell has applied the provisions of SAB 107 in its adoption of SFAS 123(R). See Note 6 of Notes to Consolidated Financial Statements for further discussion of stock-based compensation.

Prior to the adoption of SFAS 123(R), Dell measured compensation expense for its employee stock-based compensation plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25). Dell applied the disclosure provisions of SFAS 123 such that the fair value of employee stock-based compensation was disclosed in the notes to its financial statements. Under APB 25, when the exercise price of Dell s employee stock options equaled the market price of the underlying stock at the date of the grant, no compensation expense was recognized.

Recently Issued Accounting Pronouncements In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Instruments* (SFAS 155), which is an amendment of SFAS 133, and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of*

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DELL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Liabilities a replacement of FASB Statement No. 125 (SFAS 140). SFAS 155 allows Dell to elect to account for financial instruments with embedded derivatives as a whole on a fair value basis, instead of bifurcating the derivative from the host financial instrument. This statement also requires Dell to evaluate its interest in securitized financial assets to identify any freestanding derivatives and embedded derivatives, and clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives. SFAS 155 is effective for all financial instruments acquired, issued, or subject to a remeasurement event after the beginning of Dell s Fiscal 2008. Dell determined that its retained interest in securitized assets contains embedded derivatives and elected to account for the entire asset on a fair value basis. The fair value basis did not have a material effect on Dell s results of operations, financial position, or cash flows.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140* (SFAS 156). SFAS 156 requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in specific situations. Additionally, the servicing asset or servicing liability is initially measured at fair value; however, an entity may elect the amortization method or fair value method for subsequent reporting periods. SFAS 156 is effective beginning Dell s Fiscal 2008. Adoption of SFAS 156 did not have a material effect on Dell s results of operations, financial position, or cash flows.

In June 2006, the Emerging Issues Task Force reached a consensus on Issue No. 06-3, *Disclosure Requirements for Taxes Assessed by a Governmental Authority on Revenue-Producing Transactions* (EITF 06-3). The consensus allows an entity to choose between two acceptable alternatives based on their accounting policies for transactions in which the entity collects taxes on behalf of a governmental authority, such as sales taxes. Under the gross method, taxes collected are accounted for as a component of revenue with an offsetting expense. Conversely, the net method excludes such taxes from revenue. Companies are required to disclose the method selected pursuant to APB Opinion No. 22, *Disclosure of Accounting Policies*. If such taxes are reported gross and are significant, companies are required to disclose the amount of those taxes. The guidance should be applied to financial reports through retrospective application for all periods presented, if amounts are significant, for interim and annual reporting periods beginning after December 15, 2006, which is Dell s Fiscal 2008. Dell records revenue net of such taxes.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. Dell adopted this Interpretation in the first quarter of Fiscal 2008, and this adoption resulted in a decrease to stockholders equity of approximately $62 million. In addition, consistent with the provisions of FIN 48, Dell changed the classification of $1.1 billion of income tax liabilities from current to non-current liabilities because payment of cash is not anticipated within one year of the balance sheet date. In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). SAB 108 addresses the process of quantifying financial statement misstatements; however, it does not address how to assess materiality in interim financial statements. SAB 108 establishes the dual approach for the evaluation of the impact of financial statement misstatements. SAB 108 was effective for Dell s Fiscal 2007. There was no impact on Dell s results of operations, financial position, or cash flows due to the adoption of SAB 108. However, this guidance was considered in the determination by Dell to restate its previously issued financial statements as discussed in Note 2 of Notes to Consolidated Financial Statements.

DELL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, provides a framework for measuring fair value, and expands the disclosures required for assets and liabilities measured at fair value. SFAS 157 applies to existing accounting pronouncements that require fair value measurements; it does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by Dell beginning in the first quarter of Fiscal 2009. Management is currently evaluating the impact that SFAS 157 may have on Dell s results of operations, financial position, and cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159), which provides companies with an option to report selected financial assets and liabilities at fair value with the changes in fair value recognized in earnings at each subsequent reporting date. SFAS 159 provides an opportunity to mitigate potential volatility in earnings caused by measuring related assets and liabilities differently, and it may reduce the need for applying complex hedge accounting provisions. If elected, SFAS 159 is effective for fiscal years beginning after November 15, 2007, which is Dell s Fiscal 2009. Management is currently evaluating the impact that this statement may have on Dell s results of operations and financial position, and has yet to make a decision on the elective adoption of SFAS 159.

Reclassifications To maintain comparability among the periods presented, Dell has revised the presentation of certain prior period amounts reported within the Notes to Consolidated Financial Statements. For further discussion regarding the presentation of service obligations honored, see Note 8 of Notes to Consolidated Financial Statements and for a detailed discussion addressing the change in classification of enhanced services see Note 10 of Notes to Consolidated Financial Statements.

NOTE 2 Audit Committee Independent Investigation and Restatement

Background and Scope of the Investigation

In August 2005, the Division of Enforcement of the SEC initiated an inquiry into certain of Dell s accounting and financial reporting matters and requested that Dell provide certain documents. Over the course of several months, Dell produced documents and provided information in response to the SEC s initial request and subsequent requests.

In June 2006, the SEC sent Dell an additional request for documents and information that appeared to expand the scope of the inquiry, with respect to both issues and periods. As documents and information were collected in response to this additional request, Dell s management was made aware of information that raised significant accounting and financial reporting concerns, including whether accruals, reserves, and other balance sheet items had been recorded and reported properly. After evaluating this information and in consultation with PricewaterhouseCoopers LLP, Dell s independent registered public accounting firm, management determined that the identified issues warranted an independent investigation and recommended such to the Audit Committee of Dell s Board of Directors.

On August 16, 2006, the Audit Committee, acting on management s recommendation, approved the initiation of an independent investigation. The Audit Committee engaged Willkie Farr & Gallagher LLP (Willkie Farr) to lead the investigation as the independent legal counsel to the Audit Committee. Willkie Farr in turn engaged KPMG LLP (KPMG) to serve as its independent forensic accountants.

The scope of the investigation was determined by Willkie Farr, in consultation with the Audit Committee and KPMG. The investigation involved a program of forensic analysis and inquiry directed to aspects of Dell s accounting and financial reporting practices throughout the world, and evaluated aspects of its historical accounting and financial reporting practices since Fiscal 2002 and, with respect to certain issues, prior fiscal years.

DELL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Summary of Investigation Findings

The investigation raised questions relating to numerous accounting issues, most of which involved adjustments to various reserve and accrued liability accounts, and identified evidence that certain adjustments appear to have been motivated by the objective of attaining financial targets. According to the investigation, these activities typically occurred in the days immediately following the end of a quarter, when the accounting books were being closed and the results of the quarter were being compiled. The investigation found evidence that, in that timeframe, account balances were reviewed, sometimes at the request or with the knowledge of senior executives, with the goal of seeking adjustments so that quarterly performance objectives could be met. The investigation concluded that a number of these adjustments were improper, including the creation and release of accruals and reserves that appear to have been made for the purpose of enhancing internal performance measures or reported results, as well as the transfer of excess accruals from one liability account to another and the use of the excess balances to offset unrelated expenses in later periods. The investigation found that sometimes business unit personnel did not provide complete information to corporate headquarters and, in a number of instances, purposefully incorrect or incomplete information about these activities was provided to internal or external auditors.

The investigation identified evidence that accounting adjustments were viewed at times as an acceptable device to compensate for earnings shortfalls that could not be closed through operational means. Often, these adjustments ranged from several hundred thousand to several million dollars, in the context of a company with annual revenues ranging from $35.3 billion to $55.8 billion and annual net income ranging from $2.0 billion to $3.6 billion for the periods in question. The errors and irregularities identified in the course of the investigation revealed deficiencies in Dell s accounting and financial control environment, some of which were determined to be material weaknesses, that require corrective and remedial actions.

Other Company Identified Adjustments

Concurrently with the investigation, Dell also conducted extensive internal reviews for the purpose of the preparation and certification of Dell s Fiscal 2007 financial statements and its assessment of internal controls over financial reporting. Dell s procedures included expanded account reviews and expanded balance sheet reconciliations to ensure all accounts were fully reconciled, supported, and appropriately documented. Dell also implemented improvements to its quarterly and annual accounting close process to provide for more complete review of the various business unit financial results.

Restatement Adjustments

As a result of the issues identified in the Audit Committee independent investigation, as well as issues identified in additional reviews and procedures conducted by management, the Audit Committee, in consultation with management and PricewaterhouseCoopers LLP, concluded on August 13, 2007 that Dell s previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements. Accordingly, Dell has restated its previously issued financial statements for those periods. Restated financial information is presented in this report.

The cumulative adjustments required to correct the errors and irregularities in the financial statements prior to Fiscal 2005 are reflected in the restated retained earnings as of the end of Fiscal 2004, as shown in the Statement of Stockholders   Equity. The cumulative effect of those adjustments reduced retained earnings by $52 million at January 31, 2004.

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DELL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The nature of the restatement adjustments and the impact of the adjustments to Fiscal 2006 are shown in the following table:

	Fiscal 2006						
		Adjustments					
		Revenue recognition					
	As Reported	Software sales	Other	Warranty liabilities	Other reserves and accruals	Provision for income tax[a]	As Restated
	(in millions, except per share data)						
Net revenue	$ 55,908	$ (248)	$ 130	$	$ (2)	$	$ 55,788
Cost of net revenue	45,958	(244)	124	52	7		45,897
Gross margin	9,950	(4)	6	(52)	(9)		9,891
Operating expenses:							
Selling, general, and administrative	5,140		1		(90)		5,051
Research, development, and engineering	463			(1)	(4)		458
Total operating expenses	5,603		1	(1)	(94)		5,509
Operating income	4,347	(4)	5	(51)	85		4,382
Investment and other income, net	227		11	(4)	(8)		226
Income before income taxes	4,574	(4)	16	(55)	77		4,608
Income tax provision	1,002					4	1,006
Net income	$ 3,572						$ 3,602
Earnings per common share:							
Basic	$ 1.49						$ 1.50
Diluted	$ 1.46						$ 1.47
Weighted-average shares outstanding:							
Basic	2,403						2,403

Diluted	2,449	2,449

(a) Primarily represents the aggregate tax impact of the adjustments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The nature of the restatement adjustments and the impact of the adjustments to Fiscal 2005 are shown in the following table:

	Fiscal 2005						
		Adjustments					
		Revenue recognition					
	As Reported	Software sales	Other	Warranty liabilities	Other reserves and accruals	Provision for income tax[a]	As Restated
	(in millions, except per share data)						
Net revenue	$ 49,205	$ (105)	$ 21	$	$	$	$ 49,121
Cost of net revenue	40,190	(93)	21	21	(36)		40,103
Gross margin	9,015	(12)		(21)	36		9,018
Operating expenses:							
Selling, general, and administrative	4,298				54		4,352
Research, development, and engineering	463				(3)		460
Total operating expenses	4,761				51		4,812
Operating income	4,254	(12)		(21)	(15)		4,206
Investment and other income, net	191		1		5		197
Income before income taxes	4,445	(12)	1	(21)	(10)		4,403
Income tax provision	1,402					(17)	1,385
Net income	$ 3,043						$ 3,018
Earnings per common share:							
Basic	$ 1.21						$ 1.20
Diluted	$ 1.18						$ 1.18
Weighted-average shares outstanding:							
Basic	2,509						2,509
Diluted	2,568						2,568

(a) Primarily represents the aggregate tax impact of the adjustments

Revenue Recognition Adjustments

Software Sales The largest revenue recognition adjustment relates to correcting the timing and amount of revenue recognized on the sale of certain software products. Dell is a reseller of a broad array of third-party developed software. Individually significant categories of software are analyzed for application of the appropriate accounting under American Institute of Certified Public Accountants (AICPA) Statement of Position No. 97-2, *Software Revenue Recognition* (SOP 97-2). However, the allocation of software sales revenue between the software license (recognized at point of sale) and post-contract support (deferred and recognized over time) for other high volume, lower dollar value software products has historically been assessed as a group and the post-contract support revenue was deferred based on an estimate of average Vendor Specific Objective Evidence (VSOE). During the course of its internal reviews, Dell determined

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

that its application of SOP 97-2 for these high volume software products was not correct. Dell has determined that the most appropriate application of SOP 97-2 is to defer all of the revenue from these other software offerings and amortize the revenue over the post-contract support period as VSOE has not been appropriately established. Additionally, during the course of its reviews, Dell identified certain software offerings where it had previously recognized the gross amount of revenue from the sale but where it functions more as a selling agent as opposed to the principal in the sale to the customer. In those cases Dell should have recognized the revenue net of the related cost pursuant to EITF Issue No. 99-19, *Reporting Revenue Gross as a Principal vs. Net as an Agent.*

Other The other revenue recognition adjustments include cases where Dell recognized revenue in the incorrect periods or recognized the incorrect amount of revenue on certain transactions, and cases where the allocation of revenue among the individual elements of the sale was not correct. The primary categories of other revenue recognition adjustments include the following:

SAB 104 Deferrals Instances were identified where Dell prematurely recognized revenue prior to finalization of the terms of sale with the customer, or prior to title and/or risk of loss having been passed to the customer. Sometimes these situations involved warehousing arrangements. Additionally, there were situations where revenue was incorrectly deferred to later periods despite title and/or risk of loss having passed to the end customer. Under SAB 104, there were also cases where the in-transit deferral calculation for the period end was not appropriately calculated or was based on incorrect assumptions.

Deferred Warranty Revenue Pursuant to FASB Technical Bulletin No. 90-1, *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts,* Dell defers and amortizes the revenue from the sale of extended warranties and enhanced service level agreements over the service period of the associated agreement. In some instances Dell s accounting estimates of the agreement durations were not correct, resulting in revenue being recognized over a shorter time period than the actual contract durations. Additionally, an error was identified in the amount of deferred revenue recognized and amortized during the restatement period.

Customer Rebate Accruals Dell s U.S. Consumer segment and small business group historically offered various forms of rebates to stimulate sales, including mail-in rebates. The rebate redemption liability is estimated at the time of sale based on historical redemption rates for the various types of promotions. Dell has determined that this liability was overstated due to a number of factors, including failure to update redemption rates when appropriate, additional amounts accrued for expected customer satisfaction costs, and unsupported incremental accruals recorded in addition to the calculated redemption liability estimate.

Japan Services Transactions In late January 2007, a Japanese systems integrator with whom Dell s Japanese services division did business, filed for bankruptcy. The bankruptcy trustee publicly indicated that the systems integrator had engaged in fictitious transactions. Dell promptly commenced an internal investigation led by Dell s Ethics Office to determine whether its Japanese business unit had engaged in any fictitious transactions with the systems integrator. Dell hired independent outside counsel who retained independent accountants to lead the investigation. The investigation determined that almost all of the transactions of the Japan services business involving the systems integrator likely were fabricated, as were certain additional smaller transactions involving two other Japanese systems integrators. The impact of the adjustments reduced net revenue and cost of revenue to eliminate the effect of the fictitious transactions.

Sales Reflected in Cost of Sales There were transactions identified involving the sale of certain computer component commodities and parts where the net proceeds were presented as a reduction of cost of sales rather than as revenue.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Warranty Liabilities

The issues related to Dell s warranty liabilities include situations where certain vendor reimbursement agreements were incorrectly accounted for as a reduction in the estimate of the outstanding warranty liabilities. There were also instances where warranty reserves in excess of the estimated warranty liability, as calculated by the warranty liability estimation process, were retained and not released to the income statement as appropriate. Additionally, certain adjustments in the warranty liability estimation process were identified where expected future costs or estimated failure rates were not accurate.

Other Reserves and Accruals

Many of the restatement adjustments relate to the estimates and reconciliation of various reserves and accrued liabilities, including employee benefits, accounts payable, litigation, sales commissions, payroll, employee bonuses, and supplier rebates. Dell extensively reviewed its accruals and underlying estimates, giving consideration to subsequent developments after the date of the financial statements, to assess whether any of the previously recorded amounts required adjustment. Dell conducted expanded account reviews and expanded balance sheet reconciliations to ensure that all accounts were fully reconciled, supported, and appropriately documented. As a result of this review, Dell determined that a number of its accruals required adjustment across various accounting periods. The largest of these adjustments are described in more detail below:

Employee Bonuses Certain employee bonuses were not accrued correctly, including the timing of the recording of the accrual for the employee bonuses. Additionally, in certain cases when excess accruals resulted from differences in the actual bonus payments, the excess accruals were not adjusted as appropriate.

Vendor Funding Arrangements In some instances vendor funding arrangements were not accounted for appropriately under EITF Issue No. 02-16, *Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor.* Certain amounts received from vendors were recorded as a reduction in operating expenses instead of being correctly recorded as a reduction of cost of goods sold. Additionally, certain amounts received were retained on the balance sheet and released in future periods despite the earnings process having been complete in the earlier period. Finally, there were instances where the benefit of certain vendor funding was recorded prior to the completion of the earnings process.

Unsubstantiated Accruals and Inadequately Reconciled Accounts In some instances accrual and reserve accounts lacked justification or supporting documentation. In certain cases these accounts were used to accumulate excess amounts from other reserve and accrual accounts. However, these excess reserves were not released to the income statement in the appropriate reporting period or were released for other purposes. In some instances accounts had incorrect balances because they had not been properly reconciled or because reconciling items had not been adjusted timely.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The table below summarizes the effects of the restatement adjustments on the Consolidated Statement of Financial Position at February 3, 2006.

	February 3, 2006		
	As Reported	Adjustments	As Restated
		(in millions)	
ASSETS			
Current assets:			
Cash and cash equivalents	$ 7,042	$ 12	$ 7,054
Short-term investments	2,016		2,016
Accounts receivable, net	4,089	(7)	4,082
Financing receivables, net	1,363	3	1,366
Inventories	576	12	588
Other	2,620	68	2,688
Total current assets	17,706	88	17,794
Property, plant, and equipment, net	2,005	(12)	1,993
Investments	2,691	(5)	2,686
Long-term financing receivables, net	325		325
Other non-current assets	382	72	454
Total assets	$ 23,109	$ 143	$ 23,252
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Short-term borrowings	$	$ 65	$ 65
Accounts payable	9,840	28	9,868
Accrued and other	6,087	153	6,240
Total current liabilities	15,927	246	16,173
Long-term debt	504	121	625
Other non-current liabilities	2,549	(142)	2,407
Total liabilities	18,980	225	19,205
Redeemable common stock and capital in excess of par value			
Stockholders equity:			
Common stock and capital in excess of par	9,540	(37)	9,503

Treasury stock		(18,007)				(18,007)
Retained earnings		12,746		(47)		12,699
Accumulated other comprehensive loss		(103)		2		(101)
Other		(47)				(47)
Total stockholders equity		4,129		(82)		4,047
Total liabilities and equity	$	23,109	$	143	$	23,252

Statement of Financial Position Adjustments

In addition to the income statement adjustments described above, certain Statement of Financial Position classification adjustments were also identified. These include (i) correcting the classification of advances under credit facilities by DFS from other current and non-current liabilities to short-term borrowings and long-term debt as appropriate; (ii) correcting the presentation of liabilities for estimated litigation settlements by presenting estimated insurance recoveries as a receivable from the insurance carriers rather

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

than as a reduction of the estimated settlement liability; (iii) correcting an error in the calculation and recording of the tax benefit of employee stock options which had an offsetting impact on accrued and other liabilities and stockholders equity; (iv) adjusting the fair value of long-term debt, where the interest rate is hedged with interest rate swap agreements; and (v) adjusting deferred revenue to record professional and deployment services impacting accounts receivable and accrued and other liabilities. These balance sheet corrections in classifications are included in the adjustments column above.

Statement of Cash Flows

The following table presents the major subtotals for Dell s Consolidated Statement of Cash Flows and the related impact of the restatement adjustments discussed above for Fiscal 2006 and 2005:

	Fiscal Year Ended			
	February 3, 2006		January 28, 2005	
	As Reported	As Restated	As Reported	As Restated
	(in millions)			
Net cash provided by (used in):				
Net income	$ 3,572	$ 3,602	$ 3,043	$ 3,018
Non-cash adjustments	912	789	59	643
Changes in working capital	(67)	(53)	1,755	1,772
Changes in noncurrent assets and liabilities	422	413	453	388
Operating activities	4,839	4,751	5,310	5,821
Investing activities	3,878	4,149	(2,317)	(1,678)
Financing activities	(6,226)	(6,252)	(3,128)	(3,129)
Effect of exchange rate changes on cash and cash equivalents[(a)]	(196)	(73)	565	46
Net increase in cash and cash equivalents	2,295	2,575	430	1,060
Cash and cash equivalents at beginning of year	4,747	4,479	4,317	3,419
Cash and cash equivalents at end of year	$ 7,042	$ 7,054	$ 4,747	$ 4,479

(a) The cash flows have been revised to reflect a closer approximation of the weighted-average exchange rates during the reporting periods. For most periods, this revision reduced the previously reported effect of exchange rate changes on cash and cash equivalents with an offsetting change in effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies and changes in operating working capital included in cash flows from operating activities.

DELL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Comprehensive Income

The following table presents the impact of the restatement adjustments discussed above on Dell s comprehensive income for Fiscal 2006 and 2005:

	Fiscal Year Ended			
	February 3, 2006		January 28, 2005	
	As Reported	As Restated	As Reported	As Restated
	(in millions)			
Comprehensive income:				
Net income	$ 3,572	$ 3,602	$ 3,043	$ 3,018
Unrealized gains on foreign currency hedging instruments	11	9	52	46
Unrealized losses on marketable securities	(24)	(24)	(52)	(52)
Foreign currency translations adjustments	(8)	(8)	1	1
Comprehensive income	$ 3,551	$ 3,579	$ 3,044	$ 3,013

Cumulative Restatement Adjustments to Previously Reported Beginning Retained Earnings by Category

The following table presents the impact of adjustments on previously reported beginning retained earnings for Fiscal 2006, Fiscal 2005, Fiscal 2004, and Fiscal 2003.

	February 3, 2006	January 28, 2005	January 30, 2004	January 31, 2003
	(in millions)			
Beginning retained earnings as reported	$ 9,174	$ 6,131	$ 3,486	$ 1,364
Revenue Recognition:				
Software	(21)	(9)	(7)	(2)
Other	(216)	(217)	(102)	(64)
Revenue Recognition	(237)	(226)	(109)	(66)
Warranty Liabilities	202	223	129	31
Restructuring Reserves	(18)	(18)	(14)	80
Other	(45)	(35)	(49)	32
(Provision) benefit for income taxes	21	4	11	(18)

Cumulative adjustments to beginning retained earnings	(77)	(52)	(32)	59
Beginning retained earnings as restated	$ 9,097	$ 6,079	$ 3,454	$ 1,423

NOTE 3 Financial Instruments

Disclosures About Fair Values of Financial Instruments

The fair value of investments and related interest rate derivative instruments has been estimated based upon market quoted rates. The fair value of foreign currency forward contracts has been estimated using market quoted rates of foreign currencies at the applicable balance sheet date. The estimated fair value of foreign currency purchased option contracts is based on market quoted rates at the applicable balance sheet date and the Black-Scholes option pricing model. The estimates presented herein are not necessarily indicative of the amounts that Dell could realize in a current market exchange. Changes in assumptions could significantly affect the estimates.

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DELL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Cash and cash equivalents, accounts receivable, accounts payable, and accrued and other liabilities are reflected in the accompanying Consolidated Statements of Financial Position at cost, which approximates fair value because of the short-term maturity of these assets and liabilities.

Investments

The following table summarizes by major security type the fair value and cost of Dell s investments. All investments with remaining maturities in excess of one year are recorded as long-term investments in the accompanying Consolidated Statements of Financial Position.

	February 2, 2007			February 3, 2006		
	Fair Value	Cost	Unrealized Gain (Loss)	Fair Value	Cost As Restated	Unrealized Gain (Loss)
	(in millions)					
Debt securities:						
U.S. government and agencies	$ 1,424	$ 1,449	$ (25)	$ 2,501	$ 2,547	$ (46)
U.S. corporate	1,163	1,170	(7)	1,638	1,657	(19)
International corporate	156	159	(3)	352	359	(7)
State and municipal governments	41	41		115	115	
Debt securities	2,784	2,819	(35)	4,606	4,678	(72)
Equity and other securities	115	109	6	96	96	
Investments	$ 2,899	$ 2,928	$ (29)	$ 4,702	$ 4,774	$ (72)
Short-term	$ 752	$ 756	$ (4)	$ 2,016	$ 2,028	$ (12)
Long-term	2,147	2,172	(25)	2,686	2,746	(60)
Investments	$ 2,899	$ 2,928	$ (29)	$ 4,702	$ 4,774	$ (72)

At February 2, 2007, Dell had 762 debt investment positions that had fair values below their carrying values for a period of less than 12 months. The fair value and unrealized losses on these debt investment positions totaled $1.5 billion and $21 million, respectively, at February 2, 2007. At February 2, 2007, Dell had 329 investment positions that had fair values below their carrying values for a period of more than 12 months. The fair value and unrealized losses on these investment positions totaled $800 million and $15 million, respectively, at February 2, 2007. The unrealized losses are due to changes in interest rates and are expected to be recovered over the contractual term of the instruments.

The following table summarizes Dell s realized gains and losses on investments:

	Fiscal Year Ended		
	February 2, 2007	**February 3, 2006 As Restated**	**January 28, 2005 As Restated**
		(in millions)	
Gains	$ 9	$ 13	$ 40
Losses	(14)	(15)	(34)
Net realized (loss) gain	$ (5)	$ (2)	$ 6

Dell routinely enters into securities lending agreements with financial institutions in order to enhance investment income. Dell requires that the loaned securities be collateralized in the form of cash or securities for values which generally exceed the value of the loaned security. At February 2, 2007, there were no securities on loan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Foreign Currency Instruments

Dell uses purchased option contracts and forward contracts designated as cash flow hedges to protect against the foreign currency exchange risk inherent in its forecasted transactions denominated in currencies other than the U.S. dollar. Hedged transactions include international sales by U.S. dollar functional currency entities, foreign currency denominated purchases of certain components, and intercompany shipments to some international subsidiaries. The risk of loss associated with purchased options is limited to premium amounts paid for the option contracts. The risk of loss associated with forward contracts is equal to the exchange rate differential from the time the contract is entered into until the time it is settled. These contracts typically expire in 12 months or less.

If the derivative is designated as a cash flow hedge and qualifies for hedge accounting, the effective portion of the change in the fair value of the derivative is initially deferred in comprehensive income (loss) net of tax. These amounts are subsequently recognized in income as a component of net revenue or cost of revenue in the same period the hedged transaction affects earnings. The ineffective portion of the change in fair value of a cash flow hedge is recognized currently in earnings and is reported as a component of investment and other income, net. Dell assesses hedge effectiveness both at the onset of the hedge as well as at the end of each fiscal quarter throughout the life of the derivative. Hedge ineffectiveness is measured by comparing the hedging instrument s cumulative change in fair value from inception to maturity relative to the cumulative change in fair value of the forecasted transaction. Dell recorded hedge ineffectiveness income of $2 million, $3 million, and $5 million during Fiscal 2007, Fiscal 2006, and Fiscal 2005, respectively. During Fiscal 2007, 2006, and 2005, Dell did not discontinue any cash flow hedges that had a material impact on Dell s results of operations as substantially all forecasted foreign currency transactions were realized in Dell s actual results.

At February 2, 2007, Dell held purchased foreign currency option contracts with a notional amount of approximately $3.4 billion, a net asset value of $90 million, and a net unrealized loss of $14 million, net of taxes. At February 2, 2007, Dell held foreign currency forward contracts with a notional amount of approximately $3.0 billion, a net liability value of $15 million and a net unrealized gain of $27 million, net of taxes.

At February 3, 2006, Dell held purchased foreign currency option contracts with a notional amount of approximately $3.3 billion, a net asset value of $145 million and a net unrealized gain of $1 million, net of taxes. At February 3, 2006, Dell held foreign currency forward contracts with a notional amount of approximately $3.3 billion, a net asset value of $1 million and a net unrealized loss of $18 million, net of taxes. Changes in the aggregate unrealized net gain (loss) of Dell s cash flow hedges that are recorded as a component of comprehensive income (loss), net of tax are presented in the table below. Dell expects to reclassify substantially all of the amount recorded in comprehensive income (loss) at February 2, 2007 into earnings during the next fiscal year providing an offsetting economic impact against the underlying transactions.

	Fiscal Year Ended		
	February 2, 2007	**February 3, 2006 As Restated**	**January 28, 2005 As Restated**
		(in millions)	

Aggregate unrealized net loss at beginning of year	$ (17)	$ (26)	$ (72)
Net (losses) gains reclassified to earnings	(260)	225	(356)
Change in fair value of cash flow hedges	290	(216)	402
Aggregate unrealized net gain (loss) at end of year	$ 13	$ (17)	$ (26)

DELL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Dell also uses forward contracts to hedge monetary assets and liabilities, primarily receivables and payables, denominated in a foreign currency. These contracts are not designated as hedging instruments under SFAS 133, and therefore, the change in the instrument s fair value is recognized currently in earnings and is reported as a component of investment and other income, net. The change in the fair value of these instruments represents a natural hedge as their gains and losses offset the changes in the underlying fair value of the monetary assets and liabilities due to movements in currency exchange rates. These contracts generally expire in three months or less.

Commercial Paper

On June 1, 2006 Dell implemented a $1.0 billion commercial paper program with a supporting $1.0 billion senior unsecured revolving credit facility. This program allows Dell to obtain favorable short-term borrowing rates. Dell pays facility commitment and letter of credit participation fees at rates based upon Dell s credit rating. Unless extended, this facility expires on June 1, 2011, at which time any outstanding amounts under the facility will be due and payable. The facility requires compliance with conditions that must be satisfied prior to any borrowing, as well as ongoing compliance with specified affirmative and negative covenants, including maintenance of a minimum interest coverage ratio. Amounts outstanding under the facility may be accelerated for typical defaults, including failure to pay principal or interest, breaches of covenants, non-payment of judgments or debt obligations in excess of $200 million, occurrence of a change of control, and certain bankruptcy events.

At February 2, 2007 $100 million was outstanding under the commercial paper program and was due within 90 days. The weighted-average interest rate on these outstanding short-term borrowings was 5.3% at February 2, 2007. There were no outstanding advances under the commercial paper program as of October 26, 2007. Dell uses the proceeds of the program and facility for general corporate purposes, including funding DFS growth.

DFS Credit Facilities

DFS maintains credit facilities with CIT that provide a maximum capacity of $750 million to fund leased equipment. These borrowings are secured by DFS assets and contain certain customary restrictive covenants. Interest on the outstanding loans is paid quarterly and calculated based on an average of the two- and three-year U.S. Treasury Notes plus 4.45%. DFS is required to make quarterly payments if the value of the leased equipment securing the loans is less than the outstanding principal balance. At February 2, 2007 and February 3, 2006, outstanding advances from CIT totaled $122 million and $133 million, respectively, of which $87 million and $63 million, respectively, is included in short-term borrowings and $35 million and $70 million, respectively, is included in long-term debt on Dell s Consolidated Statements of Financial Position. The credit facilities expire on the earlier of (i) the dissolution of DFS; (ii) the purchase of CIT s ownership interest in DFS; or (iii) the acceleration of the maturity of the debt by CIT arising from a default.

Vendor Financing

Dell had a vendor financing plan with a third party where participating vendors could elect to have their payables paid early by the third party as compared to Dell s standard payment terms. Vendors who elected to participate in this plan could take a discount on their invoices to accelerate the timing of payment. This discount, net of the third party s cost of funds, was allocated between the third party and Dell. This plan was terminated in the first quarter of Fiscal 2006. Discounted invoices paid by the program are estimated to be $200 million and $1.0 billion in Fiscal 2006 and 2005, respectively. Dell recognized the amounts due to the third party as short-term borrowings in the Consolidated Statement of Financial Position and the payments

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

to the third party were recognized as cash outflows from operating activities in the Consolidated Statement of Cash Flows.

Long-Term Debt and Interest Rate Risk Management

In April 1998, Dell issued $200 million 6.55% fixed rate senior notes with the principal balance due April 15, 2008 (the Senior Notes) and $300 million 7.10% fixed rate senior debentures with the principal balance due April 15, 2028 (the Senior Debentures). Interest on the Senior Notes and Senior Debentures is paid semi-annually, on April 15 and October 15. The Senior Notes and Senior Debentures rank equally and are redeemable, in whole or in part, at the election of Dell for principal, any accrued interest, and a redemption premium based on the present value of interest to be paid over the term of the debt agreements. The Senior Notes and Senior Debentures generally contain no restrictive covenants, other than a limitation on liens on Dell s assets and a limitation on sale-leaseback transactions involving Dell property.

Dell s inability to timely file its periodic reports with the SEC constituted a technical breach of the covenants to which the Senior Notes and the Senior Debentures are subject. Those covenants specify that a Notice of Default must be issued, and Dell must have failed to cure the deficiency within 90 days of the notice, before the debt is callable by the holders. Because Dell has not received a Notice of Default, Dell is not in default of these debt covenants; therefore, the Senior Notes and the Senior Debentures are classified as long-term liabilities at February 2, 2007. With the filing of its past due periodic reports with the SEC, Dell is no longer in breach of the covenants.

Concurrent with the issuance of the Senior Notes and Senior Debentures, Dell entered into interest rate swap agreements converting Dell s interest rate exposure from a fixed rate to a floating rate basis to better align the associated interest rate characteristics to its cash and investments portfolio. The interest rate swap agreements have an aggregate notional amount of $200 million maturing April 15, 2008 and $300 million maturing April 15, 2028. The floating rates are based on three-month London Interbank Offered Rates plus 0.4% and 0.8% for the Senior Notes and Senior Debentures, respectively. As a result of the interest rate swap agreements, Dell s effective interest rates for the Senior Notes and Senior Debentures were 5.8% and 6.1%, respectively, for Fiscal 2007.

The interest rate swap agreements are designated as fair value hedges. Although the Senior Notes and Senior Debentures allow for settlement before their stated maturity, such settlement would always be at an amount greater than the fair value of the Senior Notes and Senior Debentures. Accordingly, the Senior Notes and Senior Debentures are not considered to be pre-payable as defined by SFAS 133 and related interpretations. The changes in the fair value of the interest rate swaps are assessed in accordance with SFAS 133.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

NOTE 4 Income Taxes

The provision for income taxes consists of the following:

	Fiscal Year Ended		
	February 2, 2007	February 3, 2006 As Restated	January 28, 2005 As Restated
	(in millions)		
Current:			
Domestic	$ 846	$ 1,141	$ 881
Foreign	178	263	215
Tax repatriation (benefit) charge		(85)	280
Deferred	(262)	(313)	9
Provision for income taxes	$ 762	$ 1,006	$ 1,385

Income before income taxes included approximately $2.6 billion, $3.0 billion, and $2.3 billion related to foreign operations in Fiscal 2007, 2006, and 2005, respectively. On October 22, 2004, the American Jobs Creation Act of 2004 (the Act) was signed into law. Among other items, the Act created a temporary incentive for U.S. multinationals to repatriate accumulated income earned outside the U.S. at an effective tax rate of 5.25%, versus the U.S. federal statutory rate of 35%. In the fourth quarter of Fiscal 2005, Dell recorded an initial estimated income tax charge of $280 million based on the decision to repatriate $4.1 billion of foreign earnings. This tax charge included an amount relating to a drafting oversight that Congressional leaders expected to correct in calendar year 2005. On May 10, 2005, the Department of Treasury issued further guidance that addressed the drafting oversight. In the second quarter of Fiscal 2006, Dell reduced its original estimate of the tax charge by $85 million as a result of the guidance issued by the Treasury Department in May 2005. As of February 3, 2006, Dell had completed the repatriation of the $4.1 billion in foreign earnings. No foreign income was repatriated during Fiscal 2007.

Deferred taxes have not been recorded on the excess book basis in the amount of approximately $7.9 billion in the shares of certain foreign subsidiaries because these basis differences are not expected to reverse in the foreseeable future and are expected to be permanent in duration. These basis differences arose primarily through the undistributed book earnings of the subsidiaries that Dell intends to reinvest indefinitely. The basis differences could reverse through a sale of the subsidiaries, the receipt of dividends from the subsidiaries as well as various other events. Net of available foreign tax credits, residual income tax of approximately $2.4 billion would be due upon a reversal of this excess book basis.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The components of Dell s net deferred tax asset are as follows:

	Fiscal Year Ended	
	February 2, 2007	February 3, 2006 As Restated
	(in millions)	
Deferred tax assets:		
Deferred revenue	$ 440	$ 408
Inventory and warranty provisions	128	169
Investment impairments and unrealized gains		21
Provisions for product returns and doubtful accounts	51	46
Capital loss	13	15
Leasing and financing	222	120
Credit carryforwards	22	
Stock-based and deferred compensation	145	32
Other	159	93
Deferred tax assets	1,180	904
Deferred tax liabilities:		
Property and equipment	(96)	(108)
Acquired intangibles	(16)	
Other	(39)	(33)
Deferred tax liabilities	(151)	(141)
Valuation allowance	(28)	(7)
Net deferred tax asset	$ 1,001	$ 756
Current portion (included in other current assets)	$ 445	$ 442
Non-current portion (included in other non-current assets)	556	314
Net deferred tax asset	$ 1,001	$ 756

A portion of Dell s foreign operations operate at a reduced tax rate or free of tax under various tax holidays which expire in whole or in part during Fiscal 2010 through 2019. Many of these holidays may be extended when certain conditions are met. The income tax benefits attributable to the tax status of these subsidiaries were estimated to be approximately $282 million ($0.13 per share) in Fiscal 2007, $368 million ($0.15 per share) in Fiscal 2006, and $279 million ($0.11 per share) in Fiscal 2005.

In March 2007, China announced a broad program to reform tax rates and incentives effective January 1, 2008, including introduction of phased-in transition rules that could significantly alter the Chinese tax landscape for U.S. companies operating in China. Clarification of the rules is expected to be issued in late Fiscal 2008.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The effective tax rate differed from the statutory U.S. federal income tax rate as follows:

	Fiscal Year Ended		
	February 2, 2007	February 3, 2006 As Restated	January 28, 2005 As Restated
Effective tax rate:			
U.S. federal statutory rate	35.0%	35.0%	35.0%
Foreign income taxed at different rates	(17.8)	(13.9)	(11.7)
Tax repatriation (benefit) charge		(1.9)	6.4
Foreign earnings subject to U.S. taxation	2.9	1.6	0.7
Imputed intercompany charges	2.0	1.2	
Other	0.7	(0.2)	1.1
Effective tax rate	22.8%	21.8%	31.5%

The increase in Dell s Fiscal 2007 effective tax rate, compared to Fiscal 2006, is due to the $85 million tax reduction in the second quarter of Fiscal 2006 offset by a higher proportion of its operating profits being generated in lower foreign tax jurisdictions during Fiscal 2007 as compared to a year ago. The decrease in Dell s Fiscal 2006 effective tax rate, compared to Fiscal 2005, is due to the aforementioned tax repatriation charge and a higher proportion of operating profits attributable to foreign jurisdictions which are taxed at lower rates.

NOTE 5 Capitalization

Preferred Stock

Authorized Shares Dell has the authority to issue five million shares of preferred stock, par value $.01 per share. At February 2, 2007 and February 3, 2006, no shares of preferred stock were issued or outstanding.

Series A Junior Participating Preferred Stock In conjunction with the distribution of Preferred Share Purchase Rights (see below), Dell s Board of Directors designated 200,000 shares of preferred stock as Series A Junior Participating Preferred Stock (Junior Preferred Stock) and reserved such shares for issuance upon exercise of the Preferred Share Purchase Rights. The Preferred Share Purchase Rights expired on November 29, 2005, and Dell s Board of Directors eliminated the previously designated and reserved shares on February 1, 2006. At February 2, 2007 and February 3, 2006, no shares of Junior Preferred Stock were issued or outstanding.

Redeemable Common Stock

Dell inadvertently failed to register with the SEC the sale of some shares under certain employee benefit plans. As a result, certain purchasers of common stock pursuant to those plans may have the right to rescind their purchases for an amount equal to the purchase price paid for the shares, plus interest from the date of purchase. At February 2, 2007, Dell has classified 5 million shares ($111 million) that may be subject to the rescissionary rights outside stockholders equity, because the redemption features are not within the control of Dell. These shares have always been treated as outstanding for financial reporting purposes.

Common Stock

Authorized Shares At February 2, 2007, Dell is authorized to issue 7.0 billion shares of common stock, par value $.01 per share.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Share Repurchase Program Dell has a share repurchase program that authorizes it to purchase shares of common stock in order to increase shareholder value and manage dilution resulting from shares issued under Dell s equity compensation plans. However, Dell does not currently have a policy that requires the repurchase of common stock in conjunction with stock-based payment arrangements. At February 2, 2007, Dell s share repurchase program authorized the purchase of common stock at an aggregate cost not to exceed $30.0 billion. As of the end of Fiscal 2007, Dell had cumulatively repurchased 1.5 billion shares for an aggregate cost of approximately $28.6 billion. During Fiscal 2007, Dell repurchased approximately 118 million shares of common stock for an aggregate cost of $3.0 billion before temporarily suspending the share repurchase program in September 2006. Dell expects to recommence its share repurchase program in the fourth quarter of Fiscal 2008.

Preferred Share Purchase Rights

In December 1995, Dell distributed a dividend of one Preferred Share Repurchase Right for each outstanding share of common stock. Dell issued shares of common stock with accompanying Preferred Share Purchase Rights until the rights expired on November 29, 2005.

NOTE 6 Benefit Plans

Description of the Plans

Employee Stock Purchase Plan Dell has a shareholder approved employee stock purchase plan (ESPP) that permits substantially all employees to purchase shares of Dell s common stock. Prior to July 1, 2005, participating employees were permitted to purchase common stock through payroll deductions at the end of each six-month participation period at a purchase price equal to 85% of the lower of the fair market value of the common stock at the beginning or the end of the participation period. Effective July 1, 2005, the plan was amended to allow participating employees to purchase common stock through payroll deductions at the end of each three-month participation period at a purchase price equal to 85% of the fair market value of the common stock at the end of the participation period. Upon adoption of SFAS 123(R) in Fiscal 2007, Dell began recognizing compensation expense for the 15% discount received by the participating employees. Common stock reserved for future employee purchases under the plan aggregated 10 million shares at February 2, 2007, 16 million shares at February 3, 2006, and 21 million shares at January 28, 2005. Common stock issued under this plan totaled 6 million shares in Fiscal 2007, 5 million shares in Fiscal 2006, and 4 million shares in Fiscal 2005. The weighted-average fair value of the purchase rights under the ESPP during Fiscal 2007, Fiscal 2006, and Fiscal 2005 was $3.89, $6.30, and $9.77 per right, respectively.

Employee Stock Plans Dell has the following four employee stock plans (collectively referred to as the Stock Plans) under which options, restricted stock, and restricted stock units were outstanding at February 2, 2007:

The Dell Computer Corporation 1989 Stock Option Plan (the 1989 Option Plan)

The Dell Computer Corporation Incentive Plan (the 1994 Incentive Plan)

The Dell Computer Corporation 1998 Broad-Based Stock Option Plan (the 1998 Broad-Based Plan),

The Dell Computer Corporation 2002 Long-Term Incentive Plan (the 2002 Incentive Plan)

The Stock Plans are administered by the Leadership Development and Compensation Committee of Dell s Board of Directors. The 1989 Option Plan, the 1994 Incentive Plan, and the 1998 Broad-Based Plan have been terminated (except for options previously granted under those plans that are still outstanding). Consequently, awards are currently only being granted under the 2002 Incentive Plan.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The 2002 Incentive Plan provides for the granting of stock-based incentive awards to Dell s employees, non-employee directors, and certain consultants and advisors to Dell. Awards may be incentive stock options within the meaning of Section 422 of the Internal Revenue Code, nonqualified stock options, restricted stock, or restricted stock units. There were approximately 271 million, 272 million, and 291 million shares of Dell s common stock available for future grants under the Stock Plans at February 2, 2007, February 3, 2006, and January 28, 2005, respectively. To satisfy stock option exercises, Dell has a policy of issuing new shares as opposed to repurchasing shares on the open market.

Stock Option Agreements The right to purchase shares pursuant to existing stock option agreements typically vests pro-rata at each option anniversary date over a five-year period. The options, which are granted with option exercise prices equal to the fair market value of Dell s common stock on the date of grant, generally expire within ten to twelve years from the date of grant. Dell has not issued any options to consultants or advisors to Dell since Fiscal 1999. In conjunction with the adoption of SFAS 123(R) in the first quarter of Fiscal 2007, Dell changed its method of attributing the value of stock-based compensation expense from an accelerated approach to a straight-line method. Compensation expense for all stock option awards granted on or prior to February 3, 2006 is recognized using an accelerated approach with the exception of stock options granted in Fiscal 2002 and Fiscal 2003, for which compensation expense is recognized using a straight-line method.

Restricted Stock Awards Awards of restricted stock may be either grants of restricted stock, restricted stock units, or performance-based stock units that are issued at no cost to the recipient. For restricted stock grants, at the date of grant, the recipient has all rights of a stockholder, subject to certain restrictions on transferability and a risk of forfeiture. Restricted stock grants typically vest over a five- to seven-year period beginning on the date of grant. For restricted stock units, legal ownership of the shares is not transferred to the employee until the unit vests, which is generally over a five-year period. Dell also grants performance-based restricted stock units as a long-term incentive in which an award recipient receives shares contingent upon Dell achieving performance objectives and the employees continuing employment through the vesting period, which is generally over a five-year period. Compensation expense recorded in connection with these performance-based restricted stock units is based on Dell s best estimate of the number of shares that will eventually be issued upon achievement of the specified performance criteria and when it becomes probable that certain performance goals will be achieved. The cost of these awards is determined using the fair market value of Dell s common stock on the date of the grant. Compensation expense for restricted stock awards with a service condition is recognized on a straight-line basis over the vesting term. Compensation expense for performance-based restricted stock awards is recognized on an accelerated multiple-award approach based on the most probable outcome of the performance condition. In accordance with SFAS 123(R), deferred compensation related to restricted stock awards issued prior to Fiscal 2007, which was previously classified as other in stockholders equity, was classified as capital in excess of par value upon adoption.

Temporary Suspension of Option Exercises, Vesting of Restricted Stock Units, and ESPP Purchases As a result of Dell s inability to timely file its Annual Report on Form 10-K for Fiscal 2007, Dell suspended the exercise of employee stock options, the vesting of restricted stock units, and the purchase of shares under the ESPP. Dell expects to resume the exercise of employee stock options by employees, the vesting of restricted stock units, and the purchase of shares under the ESPP when it is again current in its reporting obligations under the Securities Exchange Act of 1934.

Dell agreed to pay cash to certain current and former employees who held in-the-money stock options (options that have an exercise price less than the current stock market price) that expired during the period of unexercisability.

Within 45 days after Dell files its Annual Report on Form 10-K for Fiscal 2007, Dell will make payments relating to in-the-money stock options that expired in the second and third quarters of

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Fiscal 2008, which are expected to total approximately $113 million. Dell will not continue to pay cash for expired in-the-money stock options once the options again become exercisable.

General Information

Stock Option Activity The following table summarizes stock option activity for the Stock Plans during Fiscal 2007:

	Number of Options (in millions)	Weighted-Average Exercise Price (per share)	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Options outstanding February 3, 2006	343	$ 31.86		
Granted	10	25.97		
Exercised	(13)	14.09		
Forfeited	(4)	25.84		
Cancelled/expired	(22)	36.43		
Options outstanding February 2, 2007	314	$ 32.16		
Vested and expected to vest (net of estimated forfeitures) February 2, 2007[(a)]	309	$ 32.26	5.2	$ 148
Exercisable February 2, 2007[(a)]	284	$ 32.74	5.1	$ 145

(a) For options vested and expected to vest and options exercisable, the aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between Dell s closing stock price on February 2, 2007 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had the holders exercised their options on February 2, 2007. The intrinsic value changes based on changes in the fair market value of Dell s common stock.

Other information pertaining to stock options for Fiscal 2007, Fiscal 2006, and Fiscal 2005 is as follows:

	Fiscal Years Ended February 2, 2007	February 3, 2006	January 28, 2005
	(in millions, except per option data)		
	$ 6.90	$ 10.22	$ 10.72

Weighted-average grant date fair value of stock options granted per option			
Total fair value of options vested	$ 415	$ 2,029	$ 1,028
Total intrinsic value of options exercised[(a)]	$ 171	$ 688	$ 697

(a) The total intrinsic value of options exercised represents the total pre-tax intrinsic value (the difference between the stock price at exercise and the exercise price, multiplied by the number of options exercised) that was received by the option holders who exercised their options during Fiscal 2007.

At February 2, 2007, $139 million of total unrecognized stock-based compensation expense, net of estimated forfeitures, related to stock options is expected to be recognized over a weighted-average period of approximately 1.7 years.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Non-vested Restricted Stock Activity Non-vested restricted stock awards at February 2, 2007 and activities during Fiscal 2007 were as follows:

		Number of Shares (in millions)	Weighted-Average Grant Date Fair Value (per share)
Non-vested restricted stock	February 3, 2006	2	$ 34.66
Granted		21	28.36
Vested		(1)	28.84
Forfeited		(5)	29.29
Non-vested restricted stock	February 2, 2007	17	$ 28.76

	Fiscal Years Ended		
	February 2, 2007	February 3, 2006	January 28, 2005
	(in millions, except per share data)		
Weighted-average grant date fair value of restricted stock awards granted	$ 28.36	$ 39.70	$ 35.23
Total estimated fair value of restricted stock awards vested	$ 16	$	$

At February 2, 2007 $356 million of unrecognized stock-based compensation expense, net of estimated forfeitures, related to non-vested restricted stock awards is expected to be recognized over a weighted-average period of approximately 2.4 years.

Expense Information under SFAS 123(R)

For Fiscal 2007, stock-based compensation expense, net of income taxes, was allocated as follows:

	Fiscal Year Ended February 2, 2007 (in millions)
Stock-based compensation expense:	
Cost of net revenue	$ 59

Operating expenses		309
Stock-based compensation expense before taxes		368
Income tax benefit		(110)
Stock-based compensation expense, net of income taxes	$	258

Prior to the adoption of SFAS 123(R), net income included compensation expense related to restricted stock awards but did not include stock-based compensation expense for employee stock options or the purchase discount under Dell s ESPP. Total stock-based compensation expense was $368 million for the fiscal year ended February 2, 2007. As a result of adopting SFAS 123(R), income before income taxes and net income were lower by $272 million and $191 million, respectively, for Fiscal 2007 as compared to Fiscal 2006, than if Dell had not adopted SFAS 123(R). The impact on both basic and diluted earnings per share for the fiscal year ended February 2, 2007 was $0.08 per share. The remaining $96 million of pre-tax stock compensation expense for the fiscal year ended February 2, 2007, is associated with restricted stock awards that, consistent with APB 25, are expensed over the associated vesting period. Stock-based compensation expense recognized for Fiscal 2007 is based on awards expected to vest, reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if

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necessary, in subsequent periods if actual forfeitures differ from those estimates. In the pro forma information required under SFAS 123, forfeitures were accounted for as they occurred.

Prior to the adoption of SFAS 123(R), tax benefits resulting from tax deductions in excess of the stock-based compensation expense recognized for those options were classified as operating cash flows. These excess tax benefits are now classified as a source of financing cash flows, with an offsetting amount classified as a use of operating cash flows. This amount was $80 million in Fiscal 2007. In addition, there was no material stock-based compensation expense capitalized as part of the cost of an asset.

Pro Forma Information under SFAS 123 for Periods Prior to Fiscal 2007

Prior to the adoption of SFAS 123(R), Dell measured compensation expense for its employee stock-based compensation plans using the intrinsic value method prescribed by APB 25. Under APB 25, when the exercise price of Dell s employee stock options equaled or exceeded the market price of the underlying stock on the date of the grant, no compensation expense was recognized. Dell applied the disclosure provisions of SFAS 123 as amended by SFAS 148, as if the fair-value based method had been applied in measuring compensation expense.

The following table illustrates the effect on net income and earnings per share for the fiscal years ended February 3, 2006 and January 28, 2005, as if Dell had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation:

	Fiscal Year Ended	
	February 3, 2006 As Restated	January 28, 2005 As Restated
	(in millions, except per share data)	
Net income	$ 3,602	$ 3,018
Deduct: Total share-based employee compensation determined under fair value method for all awards, net of related tax effects	(1,094)	(812)
Net income pro forma	$ 2,508	$ 2,206
Earnings per common share:		
Basic as restated	$ 1.50	$ 1.20
Basic pro forma	$ 1.04	$ 0.88
Diluted as restated	$ 1.47	$ 1.18
Diluted pro forma	$ 1.02	$ 0.86

On January 5, 2006, Dell s Board of Directors approved the acceleration of vesting of certain unvested and out-of-the-money stock options with exercise prices equal to or greater than $30.75 per share previously awarded under equity compensation plans. Options to purchase approximately 101 million shares of common stock, or 29% of the outstanding unvested options, were subject to the acceleration. The weighted-average exercise price of the options that were accelerated was $36.37. The purpose of the acceleration was to enable Dell to reduce future compensation expense associated with these options upon the adoption of SFAS 123(R).

Valuation Information

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

The weighted-average fair value of stock options and purchase rights under the employee stock purchase plan was determined based on the Black-Scholes option pricing model weighted for all grants during Fiscal 2007, 2006, and 2005, utilizing the assumptions in the following table:

	Fiscal Years Ended		
	February 2, 2007	**February 3, 2006**	**January 28, 2005**
Expected term:			
Stock options	3.6 years	3.8 years	3.8 years
Employee stock purchase plan	3 months	3 months	6 months
Risk-free interest rate (U.S. Government Treasury Note)	4.8%	3.9%	2.9%
Volatility	26%	25%	36%
Dividends	0%	0%	0%

401(k) Plan Dell has a defined contribution retirement plan (the 401(k) Plan) that complies with Section 401(k) of the Internal Revenue Code. Substantially all employees in the U.S. are eligible to participate in the Plan. Effective January 1, 2005, Dell matches 100% of each participant s voluntary contributions, subject to a maximum contribution of 4% of the participant s compensation, and participants vest immediately in all Dell contributions to the Plan. Prior to January 1, 2005, Dell matched 100% of each participant s voluntary contributions, subject to a maximum contribution of 3% of the participant s compensation. Dell s contributions during Fiscal 2007, 2006, and 2005 were $70 million, $66 million, and $48 million, respectively. Dell s contributions are invested according to each participant s elections in the investment options provided under the Plan. Investment options include Dell stock, but neither participant nor Dell contributions are required to be invested in Dell stock. As a result of Dell s failure to file its Annual Report on Form 10-K for Fiscal 2007 by the original due date, April 3, 2007, Dell suspended the right of Plan participants to invest additional contributions in Dell stock on April 4, 2007.

Deferred Compensation Plan Dell has a nonqualified deferred compensation plan (the Deferred Compensation Plan) for the benefit of certain management employees and non-employee directors. The Deferred Compensation Plan permits the deferral of base salary and annual incentive bonus. The deferrals are held in a separate trust, which has been established by Dell to administer the Plan. The assets of the trust are subject to the claims of Dell s creditors in the event that Dell becomes insolvent. Consequently, the trust qualifies as a grantor trust for income tax purposes (i.e. a Rabbi Trust). In accordance with the provisions of EITF No. 97-14, *Accounting for Deferred Compensation Arrangements Where Amounts Earned are Held in a Rabbi Trust and Invested* (EITF 97-14), the assets and liabilities of the Plan are presented in investments and accrued and other liabilities in the accompanying Consolidated Statements of Financial Position, respectively. The assets held by the trust are classified as trading securities, with changes in the deferred compensation charged to compensation expense.

NOTE 7 Financial Services

Joint Venture Agreement

Dell offers various customer financial services for its business and consumer customers in the U.S. through DFS, a joint venture with CIT. Loan and lease financing through DFS is one of many sources of financing that Dell s customers may select. Dell recognized revenue from the sale of products financed through DFS

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of $6.1 billion, $6.5 billion, and $5.6 billion during the fiscal years ended February 2, 2007, February 3, 2006, and January 28, 2005, respectively.

On September 8, 2004, Dell and CIT executed an agreement that extended the term of the joint venture to January 29, 2010, and modified certain terms of the relationship. In accordance with the extension agreement, net income and losses generated by DFS are currently allocated 70% to Dell and 30% to CIT. At February 2, 2007 and February 3, 2006, CIT s equity ownership in the net assets of DFS was $33 million and $14 million, respectively, which is recorded as minority interest and included in other non-current liabilities.

The extension agreement provides Dell with the option to purchase CIT s 30% interest in DFS in February 2008, for a purchase price ranging from approximately $100 million to $345 million. Dell currently expects that the purchase price will likely be towards the upper end of that range. If Dell does not exercise this purchase option, Dell is obligated to purchase CIT s 30% interest upon the occurrence of certain termination events, or upon the expiration of the joint venture on January 29, 2010.

Dell is dependent upon DFS to facilitate financing for a significant number of customers who elect to finance products sold by Dell. Dell also purchases loan and lease receivables facilitated by DFS on substantially the same terms and conditions as CIT. Dell s purchase of these assets allows Dell to retain a greater portion of the assets future earnings. During Fiscal 2007, Dell funded approximately 35% of these financing transactions. The percentage of transactions that Dell will purchase under the extension agreement is expected to be approximately 50% in Fiscal 2008.

DFS is a full service financial services entity; key activities include the origination, collection, and servicing of financing receivables related to the purchase of Dell products. While DFS services CIT funded receivables, Dell s obligation related to the performance of these receivables is limited to the cash funded reserves established at the time of funding.

Financing Receivables

The following table summarizes the components of Dell s financing receivables, net of the allowance for estimated uncollectible amounts:

	February 2, 2007	February 3, 2006 As Restated
	(in millions)	
Financing receivables, net:		
Customer receivables:		
Revolving loans, net	$ 771	$ 1,025
Leases and loans, net	627	302
Customer receivables, net	1,398	1,327

Residual interest		296		274
Retained interest		159		90
Financing receivables, net	$	1,853	$	1,691
Short-term	$	1,530	$	1,366
Long-term		323		325
Financing receivables, net	$	1,853	$	1,691

Financing receivables primarily consist of revolving loans and fixed-term leases and loans resulting from the sale of Dell products. If customers desire revolving or term loan financing, Dell sells equipment directly

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

to customers who, in turn, enter into agreements to finance their purchases. For customers who desire lease financing, Dell sells the equipment to DFS, and DFS enters into direct financing lease arrangements with the customers.

Customer receivables are presented net of allowance for uncollectible accounts. The allowance is based on factors including historical trends and the composition and credit quality of the customer receivables. The composition and credit quality varies from investment grade commercial customers to subprime consumers. Customer receivables are charged to the allowance at the earlier of when an account is deemed to be uncollectible or when the account is 180 days delinquent. Recoveries on customer receivables previously charged off as uncollectible are adjusted to the allowance for uncollectible accounts. The following is a description of the components of financing receivables.

- Revolving loans offered under private label credit financing programs provide qualified customers with a revolving credit line for the purchase of products and services offered by Dell. From time to time, account holders may have the opportunity to finance their Dell purchases with special programs during which, if the outstanding balance is paid in full, no interest is charged. These special programs generally range from 3 to 18 months and have an average original term of approximately 13 months. Revolving loans bear interest at a variable annual percentage rate that is tied to the prime rate.

- Leases with business customers generally have fixed terms of two to three years. Future maturities of minimum lease payments at February 2, 2007 are as follows: 2008: $55 million; 2009: $36 million; 2010: $13 million; and 2011: $1 million. Fixed-term loans are also offered to qualified small businesses for the purchase of products sold by Dell.

Dell retains a residual interest in the leased equipment. The amount of the residual interest is established at the inception of the lease based upon estimates of the value of the equipment at the end of the lease term using historical studies, industry data, and future value-at-risk demand valuation methods. On a periodic basis, Dell assesses the carrying amount of its recorded residual values for impairment. Anticipated declines in specific future residual values that are considered to be other than temporary are recorded in current earnings.

Retained interests represent the residual beneficial interest Dell retains in certain pools of securitized finance receivables. Retained interests are stated at the present value of the estimated net beneficial cash flows after payment of all senior interests. In estimating the value of retained interests, Dell makes a variety of financial assumptions, including pool credit losses, payment rates, and discount rates. These assumptions are supported by both Dell s historical experience and anticipated trends relative to the particular receivable pool. Dell reviews its investments in retained interests periodically for impairment, based on estimated fair value. Any resulting losses representing the excess of carrying value over estimated fair value that are other-than-temporary are recorded in earnings. However, unrealized gains are reflected in stockholders equity as part of accumulated other comprehensive income. In the first quarter of Fiscal 2008 Dell adopted SFAS 155 and, as a result, all gains and losses are recognized in income immediately and are no longer included in accumulated other comprehensive income.

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The following table summarizes the components of retained interest balances and related cash flows:

	Fiscal Year Ended February 2, 2007	Fiscal Year Ended February 3, 2006 As Restated
	(in millions)	
Retained interest:		
Retained interest at beginning of year	$ 90	$ 24
New sales	167	97
Distributions from conduits	(142)	(37)
Net accretion	17	4
Change in fair value for the period	27	2
Retained interest at end of year	$ 159	$ 90
Cash flows during the periods:		
Proceeds from new securitizations	$ 607	$ 446
Other cash flows received on retained interests	142	36
Servicing fees received	9	
Repurchases of ineligible contracts	(7)	(4)
Cash flows during the period	$ 751	$ 478

The table below summarizes the key assumptions used to measure the retained interest at the date of the securitizations for transactions completed in Fiscal 2007 and the assumptions used in calculating the fair value of the retained interest in securitized assets at February 2, 2007.

	Average Key Assumptions			
	Weighted-Average Monthly Payment Rates	Weighted-Average Credit Losses (lifetime)	Weighted-Average Discount Rates (annualized)	Weighted-Average Life (months)
Time of Sale Valuation of Retained Interest	8%	9%	15%	12
Valuation of Retained Interests	7%	9%	14%	12

The impact of adverse changes to the key assumptions of the fair value of retained interest at February 2, 2007 is shown in the following table:

	February 2, 2007 (in millions)
Adverse Change of:	
Expected Prepayment Speed: 10%	$ (2)
Expected Prepayment Speed: 20%	$ (4)
Expected Credit Losses: 10%	$ (7)
Expected Credit Losses: 20%	$ (14)
Discount Rate: 10%	$ (4)
Discount Rate: 20%	$ (8)

These sensitivity analyses are hypothetical in nature and should be used with caution. The analyses utilized 10 percent and 20 percent adverse variation in assumptions to assess the sensitivities in fair values of the retained interest. However, these changes generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. Further, the effect of a

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variation in a particular assumption on the fair value is calculated without giving effect to any other assumption changes. It should be noted that changes in one factor may result in changes in another factor (for example, increases in market interest rates may result in lower prepayments and increased credit losses) that may magnify or counteract the other factor s sensitivities. The effect of multiple factor changes were not considered in this analysis.

DFS Servicing Liability

DFS has collection and servicing responsibilities for the finance receivables purchased by CIT and has recorded a servicing liability associated with its obligation to provide such services. DFS establishes the liability based upon the estimated fair value upon transfer of the related financed receivable, which is amortized over the related servicing period. DFS validates that it is receiving fair value for its servicing efforts by performing market comparisons. The servicing liability is included in other current and non-current liabilities on Dell s Consolidated Statements of Financial Position. At February 2, 2007 and February 3, 2006, the servicing liability was $13 million and $15 million, respectively.

Asset Securitization

During Fiscal 2007 and Fiscal 2006, Dell sold $1.1 billion and $586 million, respectively, of fixed-term leases and loans and revolving loans to unconsolidated qualifying special purpose entities. The qualifying special purpose entities are bankruptcy remote legal entities with assets and liabilities separate from those of Dell. The sole purpose of the qualifying special purpose entities is to facilitate the funding of finance receivables in the capital markets. Dell determines the amount of receivables to securitize based on its funding requirements in conjunction with specific selection criteria designed for the transaction. The qualifying special purpose entities have entered into financing arrangements with three multi-seller conduits that, in turn, issue asset-backed debt securities in the capital markets. Transfers of financing receivables are recorded in accordance with the provisions of SFAS 140. The principal balance of the securitized receivables at the end of Fiscal 2007 and Fiscal 2006 were $979 million and $552 million, respectively.

Dell retains the right to receive collections on securitized receivables in excess of amounts needed to pay interest and principal as well as other required fees. Upon the sale of the financing receivables, Dell records the present value of the excess cash flows as a retained interest, which typically results in a gain that ranges from 2% to 4% of the customer receivables sold. Dell services the securitized contracts and earns a servicing fee. Dell s securitization transactions generally do not result in servicing assets and liabilities, as the contractual fees are adequate compensation in relation to the associated servicing cost.

Dell s securitization program contains structural features that could prevent further funding if the credit losses or delinquencies on the pool of sold receivables exceed specified levels. These structural features are within normal industry practice and are similar to comparable securitization programs in the marketplace. Dell does not currently expect that any of these features will have a material adverse impact on its ability to securitize financing receivables.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table presents the net credit losses and accounts 60 days or more past due of the securitized finance receivables:

	February 2, 2007		February 3, 2006	
	Dollars	%[a]	Dollars As Restated	%[a] As Restated
	(in millions, except percentages)			
Net credit losses of securitized finance receivables	$ 30.9	4%	$ 6.2	2%
Securitized finance receivables 60 days or more delinquent	$ 33.2	3%	$ 5.5	1%

(a) Net credit losses as a percent of the outstanding financing receivable balance.

NOTE 8 Warranty Liability and Related Deferred Revenue

Revenue from extended warranty and service contracts, for which Dell is obligated to perform, is recorded as deferred revenue and subsequently recognized over the term of the contract or when the service is completed. Dell records warranty liabilities at the time of sale for the estimated costs that may be incurred under its limited warranty. Changes in Dell s deferred revenue for extended warranties and warranty liability for standard warranties, which are included in other current and non-current liabilities on Dell s Consolidated Statements of Financial Position, are presented in the following tables:

	Fiscal Year Ended		
	February 2, 2007	February 3, 2006 As Restated	January 28, 2005 As Restated
	(in millions)		
Deferred revenue:			
Deferred revenue at beginning of year	$ 3,707	$ 2,904	$ 2,053
Revenue deferred for new extended warranty and service contracts sold[a]	3,135	2,830	2,135
Revenue recognized[a]	(2,621)	(2,027)	(1,284)
Deferred revenue at end of year	$ 4,221	$ 3,707	$ 2,904
Current portion	$ 2,032	$ 1,842	$ 1,473
Non-current portion	2,189	1,865	1,431

Deferred revenue at end of year	$	4,221	$	3,707	$	2,904

DELL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Fiscal Year Ended		
	February 2, 2007	**February 3, 2006 As Restated**	**January 28, 2005 As Restated**
		(in millions)	
Warranty liability:			
Warranty liability at beginning of year	$ 951	$ 722	$ 633
Costs accrued for new warranty contracts and changes in estimates for pre-existing warranties[b]	1,242	1,391	852
Service obligations honored[a]	(1,235)	(1,162)	(763)
Warranty liability at end of year	$ 958	$ 951	$ 722
Current portion	$ 768	$ 714	$ 463
Non-current portion	190	237	259
Warranty liability at end of year	$ 958	$ 951	$ 722

(a) Prior period amounts have been changed to reflect the current year presentation of service obligations honored. There is no impact to the Consolidated Statements of Financial Position or Consolidated Statements of Income as a result of this change.

(b) Changes in cost estimates related to pre-existing warranties are aggregated with accruals for new warranty contracts. Dell s warranty liability process does not differentiate between estimates made for pre-existing warranties and new warranty obligations.

On August 14, 2006, Dell announced a voluntary recall of approximately 4.2 million Dell-branded lithium-ion batteries with cells manufactured by a supplier. From April 1, 2004, through July 18, 2006, Dell sold or provided these batteries individually or as part of a service replacement with notebook computers. This recall has not had a material impact on Dell s results of operations, financial position, or cash flows, as Dell was indemnified by the manufacturer of these batteries.

NOTE 9 Commitments and Contingencies

Lease Commitments Dell leases property and equipment, manufacturing facilities, and office space under non-cancelable leases. Certain of these leases obligate Dell to pay taxes, maintenance, and repair costs. At February 2, 2007, future minimum lease payments under these non-cancelable leases are as follows: $79 million in Fiscal 2008; $72 million in Fiscal 2009; $56 million in Fiscal 2010; $47 million in Fiscal 2011; $35 million in Fiscal 2012; and $161 million thereafter.

Rent expense under all leases totaled $78 million, $70 million, and $60 million for Fiscal 2007, 2006, and 2005, respectively.

DFS Purchase Commitment Pursuant to the joint venture agreement between Dell and CIT, Dell has an obligation to purchase CIT s 30% interest in DFS at the expiration of the joint venture on January 29, 2010, for a purchase price ranging from approximately $100 million to $345 million. Dell currently expects that the purchase price will likely be towards the upper end of the range. See Note 7 of Notes to Consolidated Financial Statements.

Restricted Cash Pursuant to an agreement between DFS and CIT, Dell is required to maintain escrow cash accounts that are held as recourse reserves for credit losses, performance fee deposits related to Dell s private label credit card, and deferred servicing revenue. Restricted cash specific to the consolidation of DFS in the amount of $416 million and $453 million is included in other current assets on Dell s Consolidated Statements of Financial Position at February 2, 2007 and February 3, 2006, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Legal Matters Dell is involved in various claims, suits, investigations, and legal proceedings that arise from time to time in the ordinary course of its business. As required by SFAS No. 5, *Accounting for Contingencies* (SFAS 5), Dell accrues a liability when it believes that it is both probable that a liability has been incurred and that it can reasonably estimate the amount of the loss. The following is a discussion of Dell s significant legal matters.

Investigations and Related Litigation In August 2005, the SEC initiated an inquiry into certain of Dell s accounting and financial reporting matters and requested that Dell provide certain documents. The SEC expanded that inquiry in June 2006 and entered a formal order of investigation in October 2006. The SEC s requests for information were joined by a similar request from the United States Attorney for the Southern District of New York (SDNY), who subpoenaed documents related to Dell s financial reporting from and after Fiscal 2002. In August 2006, because of potential issues identified in the course of responding to the SEC s requests for information, Dell s Audit Committee, on the recommendation of management and in consultation with PricewaterhouseCoopers LLP, Dell s independent registered public accounting firm, initiated an independent investigation, which was recently completed. For information regarding the Audit Committee s investigation, the accounting errors and irregularities identified, and the restatement adjustments see Note 2 of Notes to Consolidated Financial Statements. Although the Audit Committee investigation has been completed, the investigations being conducted by the SEC and the SDNY are ongoing. Dell continues to cooperate with the SEC and the SDNY.

Dell and several of its current and former directors and officers are parties to securities, Employee Retirement Income Security Act of 1974 (ERISA), and shareholder derivative lawsuits all arising out of the same events and facts. Four putative securities class actions that were filed in the Western District of Texas, Austin Division, against Dell and certain of its current and former officers have been consolidated as *In re Dell Inc. Securities Litigation*, and a lead plaintiff has been appointed by the court. The lead plaintiff has asserted claims under sections 10(b), 20(a), and 20A of the Securities Exchange Act of 1934 based on alleged false and misleading disclosures or omissions regarding Dell s financial statements, governmental investigations, known battery problems, business model, and insiders sales of its securities. This action also includes Dell s independent registered public accounting firm, PricewaterhouseCoopers LLP, as a defendant. Four other putative class actions that were also filed in the Western District by purported participants in the Dell Inc. 401(k) Plan have been consolidated as *In re Dell Inc. ERISA Litigation*, and lead plaintiffs have been appointed by the court. The lead plaintiffs have asserted claims under ERISA based on allegations that Dell, certain current officers, and certain current and former directors imprudently invested and managed participants funds and failed to disclose information regarding its stock held in the 401(k) Plan. In addition, seven shareholder derivative lawsuits that were filed in three separate jurisdictions (the Western District of Texas, Austin Division; the Delaware Chancery Court; and the state district court in Travis County, Texas) have been consolidated into three actions, one in each of the respective jurisdictions, as *In re Dell Inc. Derivative Litigation,* and name various current and former officers and directors as defendants and Dell as a nominal defendant. On October 8, 2007, the shareholder derivative lawsuit filed in the Western District of Texas was dismissed without prejudice by the court. The Travis County, Texas action has been transferred to the state district court in Williamson County, Texas. The shareholder derivative lawsuits assert claims derivatively on behalf of Dell under state law, including breaches of fiduciary duties. Finally, one purported shareholder has filed an action against Dell in Delaware Chancery Court under Section 220 of the Delaware General Corporation Law, *Baltimore County Employees Retirement System v. Dell Inc.,* seeking inspection of certain of Dell s books and records related to the internal investigation and government investigations. Dell intends to defend all of these lawsuits vigorously.

Copyright Levies Proceedings against the IT industry in Germany seek to impose levies on equipment, such as personal computers, multifunction devices, and printers that facilitate making private copies of copyrighted materials. The total levies due, if imposed, would be based on the number of

DELL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

products sold and the per-product amounts of the levies, which vary. Dell, along with other companies and various industry associations are opposing these levies and instead are advocating compensation to rights holders through digital rights management systems.

There are currently three levy cases involving other equipment manufacturers pending before the German Federal Supreme Court. Adverse decisions in these cases could ultimately impact Dell. The cases involve personal computers, printers, and multifunctional devices. The equipment manufacturers in these cases recently lost in lower courts and have appealed. The amount allowed by the lower courts with respect to PCs is 12 per personal computer sold for reprographic copying capabilities. The amounts claimed with respect to printers and multifunctional devices depend on speed and color and vary between 10 and 300 for printers and between 38 and 600 for multifunctional devices. On December 29, 2005, Zentralstelle Für private Überspielungrechte (ZPÜ), a joint association of various German collection societies, instituted arbitration proceedings against Dell s German subsidiary before the Arbitration Body in Munich. ZPÜ claims a levy of 18.4 per PC that Dell sold in Germany from January 1, 2002 through December 31, 2005. On July 31, 2007, the Arbitration Body recommended a levy of 15 on each PC sold during that period, for audio and visual copying capabilities. Dell and ZPÜ rejected the recommendation and Dell expects that the matter will proceed to court. Dell will continue to defend this claim vigorously.

Lucent v. Dell In February 2003, Lucent Technologies, Inc. filed a lawsuit against Dell in the United States District Court for Delaware, and the lawsuit was subsequently transferred to the United States District Court for the Southern District of California. The lawsuit alleges that Dell infringed 12 patents owned by Lucent and seeks monetary damages and injunctive relief. In April 2003, Microsoft Corporation filed a declaratory judgment action against Lucent in the United States District Court for the Southern District of California, asserting that Microsoft products do not infringe patents held by Lucent, including 10 of the 12 patents at issue in the lawsuit involving Dell and Microsoft. These actions were consolidated for discovery purposes with a previous suit that Lucent filed against Gateway, Inc. In September 2005, the court granted a summary judgment of invalidity with respect to one of the Lucent patents asserted against Dell. In addition, in decisions made through May 2007, the court granted summary judgment of non-infringement with respect to five more of the Lucent patents asserted against Dell. The court has ordered invalidity briefing with regard to other patents at issue in view of the April 30, 2007, U.S. Supreme Court decision in *KSR v. Teleflex*. Fact and expert discovery has closed, and the three actions have been consolidated. Trial is scheduled to begin in February 2008. Dell is defending these claims vigorously. Separately, Dell has filed a lawsuit against Lucent in the United States District Court for the Eastern District of Texas, alleging that Lucent infringes two patents owned by Dell and seeking monetary damages and injunctive relief. That litigation is pending and discovery is proceeding.

Sales Tax Claims Several state and local taxing jurisdictions have asserted claims against Dell Catalog Sales L.P. (DCSLP), an indirect wholly-owned subsidiary of Dell, alleging that DCSLP had an obligation to collect tax on sales made into those jurisdictions because of its alleged nexus, or physical presence, in those jurisdictions. During the first and second quarter of Fiscal 2008, Dell settled suits filed by the State of Louisiana and the Secretary of the Louisiana Department of Revenue and Taxation in the 19th Judicial District Court of the State of Louisiana, and by two Louisiana parishes, Orleans Parish and Jefferson Parish, in the State of Louisiana 24th Judicial District Court. Dell also settled similar claims made by a number of other Louisiana parishes and by the State of Massachusetts. These settlement amounts did not have a material adverse effect on Dell s financial condition, results of operations, or cash flows. While there are ongoing claims by certain other state and local taxing authorities, DCSLP disputes the allegation that it had nexus in any of these other jurisdictions during the periods in issue, and is defending the claims vigorously. Dell does not expect that the outcome of these other claims, individually or collectively, will have a material adverse effect on its financial condition, results of operations, or cash flows.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Income Tax Dell is currently under audit in various jurisdictions, including the United States. The tax periods open to examination by the major taxing jurisdictions to which Dell is subject include Fiscal 1999 through Fiscal 2007. Dell does not anticipate a significant change to the total amount of unrecognized benefits within the next 12 months.

Dell is involved in various other claims, suits, investigations, and legal proceedings that arise from time to time in the ordinary course of its business. Although Dell does not expect that the outcome in any of these other legal proceedings, individually or collectively, will have a material adverse effect on its financial condition or results of operations, litigation is inherently unpredictable. Therefore, Dell could incur judgments or enter into settlements of claims that could adversely affect its operating results or cash flows in a particular period.

Certain Concentrations All of Dell s foreign currency exchange and interest rate derivative instruments involve elements of market and credit risk in excess of the amounts recognized in the consolidated financial statements. The counterparties to the financial instruments consist of a number of major financial institutions. In addition to limiting the amount of agreements and contracts it enters into with any one party, Dell monitors its positions with, and the credit quality of the counterparties to, these financial instruments. Dell does not anticipate nonperformance by any of the counterparties.

Dell s investments in debt securities are placed with high quality financial institutions and companies. As part of its cash and risk management processes, Dell performs periodic evaluations of the credit standing of the institutions in accordance with its investment policy. Dell s investments in debt securities have effective maturities of less than five years. Management believes that no significant concentration of credit risk for investments exists for Dell.

Dell markets and sells its products and services to large corporate clients, governments, healthcare and education accounts, as well as small-to-medium businesses and individuals.

Dell purchases a number of components from single or limited sources. In some cases, alternative sources of supply are not available. In other cases, Dell may establish a working relationship with a single source or a limited number of sources if Dell believes it is advantageous due to performance, quality, support, delivery, capacity, or price considerations. If the supply of a critical single- or limited-source material or component were delayed or curtailed, Dell s ability to ship the related product in desired quantities and in a timely manner could be adversely affected. Even where alternative sources of supply are available, qualification of the alternative suppliers and establishment of reliable supplies could result in delays and a possible loss of sales, which may have an adverse effect on Dell s operating results.

NOTE 10 Segment Information

Dell conducts operations worldwide and is managed in three geographic regions: the Americas; Europe, Middle East and Africa (EMEA); and Asia Pacific-Japan (APJ). The Americas region, which is based in Round Rock, Texas, covers the U.S., Canada, and Latin America. Within the Americas, Dell is further segmented into Business and U.S. Consumer. The Americas Business (Business) segment includes sales to corporate, government, healthcare, education, and small and medium business customers, while the U.S. Consumer segment includes sales primarily to individual consumers. The EMEA segment, based in Bracknell, England, covers Europe, the Middle East, and Africa. The APJ region, based in Singapore, covers the Asian countries of the Pacific Rim as well as Australia, New Zealand,

and India.

Corporate expenses are included in Dell s measure of segment operating income for management reporting purposes; however, with the adoption of SFAS 123(R), beginning in Fiscal 2007, stock-based compensation expense is not allocated to Dell s reportable segments. The asset totals disclosed by geography are directly managed by those regions and include accounts receivable, inventory, certain fixed assets, and certain other assets. Assets are not allocated specifically to the Business and U.S. Consumer

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segments within the Americas. Corporate assets primarily include cash and cash equivalents, investments, deferred tax assets, and other assets.

The following tables present revenue by Dell s reportable segments as well as a reconciliation of consolidated segment operating income to Dell s consolidated income for Fiscal 2007, Fiscal 2006, and Fiscal 2005:

	Fiscal Year Ended February 2, 2007	February 3, 2006 As Restated	January 28, 2005 As Restated
		(in millions)	
Net revenue			
Americas:			
Business	$ 29,311	$ 28,365	$ 25,289
U.S. Consumer	7,069	7,960	7,614
Americas	36,380	36,325	32,903
EMEA	13,682	12,887	10,753
APJ	7,358	6,576	5,465
Net revenue	$ 57,420	$ 55,788	$ 49,121

	Fiscal Year Ended February 2, 2007	February 3, 2006 As	January 28, 2005 As