DELL INC
Form 10-Q
June 10, 2010

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

Form 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2010

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)

1-800-BUY-DELL
(Registrant s telephone number, including area code)

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

Large accelerated filer þ	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of the close of business on June 3, 2010, 1,958,270,699 shares of common stock, par value $.01 per share, were outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words may, will, anticipate, estimate, expect, intend, plan, aim and similar expressions as the or our management are intended to identify these forward-looking statements. All statements by us regarding our expected financial position, revenues, cash flows and other operating results, business strategy, legal proceedings and similar matters are forward-looking statements. Our expectations expressed or implied in these forward-looking statements may not turn out to be correct. Our results could be materially different from our expectations because of various risks, including the risks discussed in Part I Item 1A Risk Factors of our Annual Report on Form 10-K for the fiscal year ended January 29, 2010. Any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances, including unanticipated events, after the date on which such statement is made.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DELL INC.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in millions)

	April 30, 2010 (unaudited)	January 29, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,255	$ 10,635
Short-term investments	627	373
Accounts receivable, net	5,880	5,837
Financing receivables, net	3,221	2,706
Inventories, net	1,182	1,051
Other current assets	3,619	3,643
Total current assets	24,784	24,245
Property, plant, and equipment, net	2,049	2,181
Investments	714	781
Long-term financing receivables, net	528	332
Goodwill	4,181	4,074
Purchased intangible assets, net	1,658	1,694
Other non-current assets	327	345
Total assets	$ 34,241	$ 33,652
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term debt	$ 1,079	$ 663
Accounts payable	11,402	11,373
Accrued and other	3,549	3,884
Short-term deferred services revenue	2,950	3,040
Total current liabilities	18,980	18,960
Long-term debt	3,582	3,417
Long-term deferred services revenue	3,194	3,029
Other non-current liabilities	2,607	2,605
Total liabilities	28,363	28,011

Commitments and contingencies (Note 12)		
Stockholders equity:		
Common stock and capital in excess of $.01 par value; shares authorized: 7,000; shares issued: 3,361 and 3,351, respectively; shares outstanding: 1,955 and 1,957, respectively	11,534	11,472
Treasury stock at cost: 931 shares and 919 shares, respectively	(28,104)	(27,904)
Retained earnings	22,439	22,110
Accumulated other comprehensive income (loss)	9	(37)
Total stockholders equity	5,878	5,641
Total liabilities and stockholders equity	$ 34,241	$ 33,652

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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DELL INC.

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

	Three Months Ended April 30, 2010	Three Months Ended May 1, 2009
Net revenue:		
Products	$ 12,086	$ 10,232
Services, including software related	2,788	2,110
Total net revenue	14,874	12,342
Cost of net revenue:		
Products	10,385	8,786
Services, including software related	1,973	1,388
Total cost of net revenue	12,358	10,174
Gross margin	2,516	2,168
Operating expenses:		
Selling, general, and administrative	1,830	1,613
Research, development, and engineering	167	141
Total operating expenses	1,997	1,754
Operating income	519	414
Interest and other, net	(68)	(2)
Income before income taxes	451	412
Income tax provision	110	122
Net income	$ 341	$ 290
Earnings per common share:		
Basic	$ 0.17	$ 0.15
Diluted	$ 0.17	$ 0.15

Weighted-average shares outstanding:		
Basic	1,961	1,949
Diluted	1,973	1,952

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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DELL INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions; unaudited)

	Three Months Ended April 30, 2010	Three Months Ended May 1, 2009
Cash flows from operating activities:		
Net income	$ 341	$ 290
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	247	201
Stock-based compensation	76	67
Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies	30	-
Deferred income taxes	(31)	(26)
Provision for doubtful accounts - including financing receivables	122	105
Other	-	18
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(119)	380
Financing receivables	(208)	(27)
Inventories	(132)	24
Other assets	69	547
Accounts payable	22	(483)
Deferred services revenue	72	(25)
Accrued and other liabilities	(251)	(310)
Change in cash from operating activities	238	761
Cash flows from investing activities:		
Investments:		
Purchases	(350)	(428)
Maturities and sales	169	642
Capital expenditures	(46)	(80)
Acquisition of business, net of cash received	(133)	(3)
Change in cash from investing activities	(360)	131
Cash flows from financing activities:		
Repurchase of common stock	(200)	-
Issuance of common stock under employee plans	7	-
Issuance of commercial paper (maturity 90 days or less), net	234	-
Proceeds from debt	268	497
Repayments of debt	(566)	(12)
Other	3	-
Change in cash from financing activities	(254)	485

Effect of exchange rate changes on cash and cash equivalents		(4)		(38)
Change in cash and cash equivalents		(380)		1,339
Cash and cash equivalents at beginning of period		10,635		8,352
Cash and cash equivalents at end of period	$	10,255	$	9,691

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 BASIS OF PRESENTATION

Basis of Presentation The accompanying Condensed Consolidated Financial Statements of Dell Inc. individually and together with its consolidated subsidiaries, (Dell) should be read in conjunction with the Consolidated Financial Statements and accompanying Notes filed with the U.S. Securities and Exchange Commission (SEC) in Dell s Annual Report on Form 10-K for the fiscal year ended January 29, 2010. The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). In the opinion of management, the accompanying Condensed Consolidated Financial Statements reflect all adjustments of a normal recurring nature considered necessary to fairly state the financial position of Dell and its consolidated subsidiaries at April 30, 2010, the results of its operations for the three months ended April 30, 2010, and May 1, 2009, and its cash flows for the three months ended April 30, 2010, and May 1, 2009.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in Dell s Condensed Consolidated Financial Statements and the accompanying Notes. Actual results could differ materially from those estimates. The results of operations and cash flows for the three months ended April 30, 2010, and May 1, 2009, are not necessarily indicative of the results to be expected for the full year.

Recently Issued and Adopted Accounting Pronouncements

Revenue Arrangements with Multiple Deliverables In September 2009, the Emerging Issues Task Force of the Financial Accounting Standards Board (FASB) reached consensus on two issues which affects the timing of revenue recognition. The first consensus changes the level of evidence of standalone selling price required to separate deliverables in a multiple deliverable arrangement by allowing a company to make its best estimate of the selling price (ESP) of deliverables when more objective evidence of selling price is not available and eliminates the use of the residual method. The consensus applies to multiple deliverable revenue arrangements that are not accounted for under other accounting pronouncements and retains the use of vendor specific objective evidence of selling price (VSOE) if available and third-party evidence of selling price (TPE), when VSOE is unavailable. The second consensus excludes sales of tangible products that contain essential software elements, that is, software enabled devices, from the scope of revenue recognition requirements for software arrangements. Dell has elected to early adopt this accounting guidance at the beginning of the first quarter of Fiscal 2011 on a prospective basis for applicable transactions originating or materially modified after January 29, 2010.

Dell s multiple deliverable arrangements generally include hardware products that are sold with services such as extended warranty services, installation, maintenance, and other services contracts. The nature and terms of these multiple deliverable arrangements will vary based on the customized needs of Dell s customers. Maintenance, support, and other services are generally delivered according to the terms of the arrangement after the initial sale of hardware or software. Dell s service contracts may include a combination of services arrangements including deployment, asset recovery, recycling, IT outsourcing, consulting, applications development, applications maintenance, and business process services. These service contracts may include provisions for cancellation, termination, refunds, or service level adjustments. These contract provisions would not have a significant impact on recognized revenue as Dell generally recognizes revenue for these contracts as the services are performed.

The adoption of the new guidance on multiple deliverable arrangements did not change the manner in which Dell accounts for its multiple deliverable arrangements as Dell did not use the residual method for the majority of its offerings and its services offerings are generally sold on a standalone basis where evidence of selling price is available. Most of Dell s products and services qualify as separate units of accounting. Prior to the first quarter of Fiscal 2011, Dell allocated revenue from multiple-element arrangements to the multiple elements based on the relative fair value of each element, which was generally based on the relative sales price of each element when sold separately. Because selling price is generally available based on standalone sales, Dell has limited application of

DELL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

TPE, as determined by comparison of pricing for products and services to the pricing of similar products and services as offered by Dell or its competitors in standalone sales to similarly situated customers. Thus, the adoption of this consensus had no impact to Dell s consolidated financial statements as of and for the first quarter of Fiscal 2011, or year ended or interim periods of Fiscal 2010.

Pursuant to the new guidance on revenue recognition for software enabled products, certain Dell storage products are no longer included in the scope of the software revenue recognition guidance. Prior to the new guidance, Dell established fair value for Post Contract Customer Support (PCS) for these products based on VSOE and used the residual method to allocate revenue to the delivered elements. Under the new guidance, the revenue for what was previously deemed PCS is now considered part of a multiple element arrangement. As such, any discount is allocated to all elements based on the relative selling price of both delivered and undelivered elements. The impact of applying this consensus was not material to Dell s consolidated financial statements as of and for the first quarter of Fiscal 2011, or year ended or interim periods of Fiscal 2010.

As new products are introduced in future periods Dell may be required to use TPE or ESP, depending on the specific facts at the time.

Variable Interest Entities and Transfers of Financial Assets and Extinguishments of Liabilities The pronouncement on transfers of financial assets and extinguishments of liabilities removes the concept of a qualifying special-purpose entity and removes the exception from applying variable interest entity accounting to qualifying special-purpose entities. The pronouncement on variable interest entities requires an entity to perform an ongoing analysis to determine whether the entity s variable interest or interests give it a controlling financial interest in a variable interest entity. The pronouncements were effective for fiscal years beginning after November 15, 2009. Dell adopted the pronouncements at the beginning of the first quarter of Fiscal 2011. The adoption of these two pronouncements resulted in Dell s consolidation of its two qualifying special purpose entities. See Note 5 of Notes to Condensed Consolidated Financial Statements for additional information on the impact of consolidation to Dell s financial position, net income and cash flows.

Reclassifications To maintain comparability among the periods presented, Dell has revised the presentation of certain prior period amounts reported within cash flows from operating activities presented in the Condensed Consolidated Statements of Cash Flows. The revision had no impact to the total change in cash from operating activities.

NOTE 2 INVENTORIES

	April 30, 2010	January 29, 2010
	(in millions)	
Inventories:		
Production materials	$ 631	$ 487
Work-in-process	131	168
Finished goods	420	396
Inventories	$ 1,182	$ 1,051

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)