

DELL INC
Form 10-Q
December 03, 2009

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

Form 10-Q

(Mark One)

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

For the quarterly period ended October 30, 2009

Or

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

For the transition period from to .

Commission File Number: 0-17017

Dell Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

74-2487834

(I.R.S. Employer Identification No.)

One Dell Way

Round Rock, Texas 78682

(Address of principal executive offices) (Zip Code)

1-800-289-3355

(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 No

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

Accelerated filer
Smaller reporting company

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

As of the close of business on November 27, 2009, 1,956,656,359 shares of common stock, par value \$.01 per share, were outstanding.

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****DELL INC.****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
(in millions)

	October 30, 2009 (unaudited)	January 30, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12,795	\$ 8,352
Short-term investments	331	740
Accounts receivable, net	5,279	4,731
Financing receivables, net	2,318	1,712
Inventories, net	952	867
Other current assets	3,196	3,749
Total current assets	24,871	20,151
Property, plant, and equipment, net	1,978	2,277
Investments	828	454
Long-term financing receivables, net	311	500
Goodwill	1,748	1,737
Purchased intangible assets, net	607	724
Other non-current assets	682	657
Total assets	\$ 31,025	\$ 26,500
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term debt	\$ 351	\$ 113
Accounts payable	9,947	8,309
Accrued and other	3,687	3,788
Short-term deferred enhanced services revenue	2,876	2,649
Total current liabilities	16,861	14,859
Long-term debt	3,442	1,898
Long-term deferred enhanced services revenue	3,054	3,000
Other non-current liabilities	2,643	2,472

Total liabilities	26,000	22,229
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock and capital in excess of \$.01 par value; shares authorized: 5; issued and outstanding: none	-	-
Common stock and capital in excess of \$.01 par value; shares authorized: 7,000; shares issued: 3,350 and 3,338, respectively; shares outstanding: 1,956 and 1,944, respectively	11,351	11,189
Treasury stock at cost: 919 shares	(27,904)	(27,904)
Retained earnings	21,776	20,677
Accumulated other comprehensive (loss) income	(198)	309
Total stockholders' equity	5,025	4,271
Total liabilities and stockholders' equity	\$ 31,025	\$ 26,500

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

Table of Contents**DELL INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(in millions, except per share amounts; unaudited)

	Three Months Ended		Nine Months Ended	
	October 30,	October 31,	October 30,	October 31,
	2009	2008	2009	2008
Net revenue:				
Products	\$ 10,746	\$ 12,970	\$ 31,601	\$ 41,073
Services, including software related	2,150	2,192	6,401	6,600
Total net revenue	12,896	15,162	38,002	47,673
Cost of net revenue:				
Products	9,269	10,958	27,033	34,966
Services, including software related	1,394	1,351	4,177	4,062
Total cost of net revenue	10,663	12,309	31,210	39,028
Gross margin	2,233	2,853	6,792	8,645
Operating expenses:				
Selling, general, and administrative	1,501	1,671	4,685	5,423
In-process research and development	-	-	-	2
Research, development, and engineering	155	167	445	487
Total operating expenses	1,656	1,838	5,130	5,912
Operating income	577	1,015	1,662	2,733
Investment and other income (expense), net	(63)	(6)	(107)	137
Income before income taxes	514	1,009	1,555	2,870
Income tax provision	177	282	456	743
Net income	\$ 337	\$ 727	\$ 1,099	\$ 2,127
Earnings per common share:				
Basic	\$ 0.17	\$ 0.37	\$ 0.56	\$ 1.07
Diluted	\$ 0.17	\$ 0.37	\$ 0.56	\$ 1.06
Weighted-average shares outstanding:				
Basic	1,956	1,953	1,953	1,993
Diluted	1,966	1,957	1,959	1,998

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

Table of Contents**DELL INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in millions; unaudited)

	Nine Months Ended	
	October 30, 2009	October 31, 2008
Cash flows from operating activities:		
Net income	\$ 1,099	\$ 2,127
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	593	573
Stock-based compensation	211	201
In-process research and development charges	-	2
Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies	58	(113)
Deferred income taxes	(33)	209
Provision for doubtful accounts - including financing receivables	290	199
Other	75	17
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(456)	(241)
Financing receivables	(556)	(28)
Inventories	(83)	65
Other assets	93	(648)
Accounts payable	1,551	(1,992)
Deferred enhanced services revenue	36	424
Accrued and other liabilities	(240)	370
 Change in cash from operating activities	 2,638	 1,165
Cash flows from investing activities:		
Investments:		
Purchases	(1,182)	(1,150)
Maturities and sales	1,307	2,034
Capital expenditures	(249)	(401)
Proceeds from sale of facility and land	16	44
Acquisition of business, net of cash received	(3)	(165)
 Change in cash from investing activities	 (111)	 362
Cash flows from financing activities:		
Repurchase of common stock	-	(2,866)
Issuance of common stock under employee plans	-	79
Issuance of commercial paper (maturity 90 days or less), net	43	253
Proceeds from debt	1,748	1,519
Repayments of debt	(62)	(237)

Change in cash from financing activities	1,729	(1,252)
Effect of exchange rate changes on cash and cash equivalents	187	(129)
Change in cash and cash equivalents	4,443	146
Cash and cash equivalents at beginning of period	8,352	7,764
Cash and cash equivalents at end of period	\$ 12,795	\$ 7,910

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

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DELL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 BASIS OF PRESENTATION

Basis of Presentation The accompanying Condensed Consolidated Financial Statements of Dell Inc. (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 30, 2009. 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 October 30, 2009, the results of its operations for the three and nine months ended October 30, 2009, and October 31, 2008, and its cash flows for the nine months ended October 30, 2009, and October 31, 2008.

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 and nine months ended October 30, 2009, and October 31, 2008, are not necessarily indicative of the results to be expected for the full year.

Accounting Pronouncements The Financial Accounting Standards Board (FASB) is the authoritative body for financial accounting and reporting in the United States. On July 31, 2009, the FASB Accounting Standards Codification (the Codification) became the authoritative source of accounting principles to be applied to the financial statements of nongovernmental entities prepared in accordance with GAAP. The following is a list of recent pronouncements issued by the FASB:

Recently Issued and Adopted Accounting Pronouncements

Business Combinations: The pronouncement requires the acquisition method of accounting be applied to a broader set of business combinations and establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, any noncontrolling interest in the acquiree, and the goodwill acquired. Dell adopted the pronouncement in the first quarter of Fiscal 2010. The adoption did not have a material impact on Dell 's Condensed Consolidated Financial Statements at the time of adoption, but the pronouncement will impact the accounting for acquisitions subsequent to that date, including Dell 's acquisition of Perot Systems Corporation (Perot Systems) on November 3, 2009. Management is currently evaluating the impact that the Perot Systems acquisition will have on Dell 's consolidated financial statements. See Note 13 of Notes to Condensed Consolidated Financial Statements for additional information.

Fair Value Measurements and Disclosures: The pronouncements define fair value, establish guidelines for measuring fair value, and expand disclosures regarding fair value measurements.

In the first quarter of Fiscal 2010, Dell adopted the fair value measurements guidance for all nonfinancial assets and nonfinancial liabilities recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The adoption did not have a material impact on Dell 's Condensed Consolidated Financial Statements. See Note 4 of Notes to Condensed Consolidated Financial Statements for additional information.

In the second quarter of Fiscal 2010, Dell adopted the guidance for measuring the fair value of financial instruments when markets become inactive and quoted prices may reflect distressed transactions. The adoption did not have a material impact on Dell's Condensed Consolidated Financial Statements. See Note 4 of Notes to Condensed Consolidated Financial Statements for additional information.

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

In the second quarter of Fiscal 2010, Dell adopted the fair value disclosure provision that requires the reporting of interim disclosures about the fair value of financial instruments previously only disclosed on an annual basis. The adoption did not have any impact on Dell's Condensed Consolidated Financial Statements as it relates only to disclosures. The required disclosures are included in Note 3 of Notes to Condensed Consolidated Financial Statements.

In the third quarter of Fiscal 2010, Dell adopted the fair value measurements guidance on the measurement of liabilities at fair value. In circumstances whereby a quoted market price in an active market for an identical liability is not available, an entity is required to use the quoted price of an identical liability traded as an asset, or if unavailable, quoted prices for similar liabilities traded as assets, or a valuation technique consistent with existing fair value principles. The adoption did not have a material impact on Dell's Condensed Consolidated Financial Statements.

Noncontrolling Interests in Consolidated Financial Statements: The pronouncement requires the noncontrolling interest in the equity of a subsidiary be accounted for and reported as equity, provides revised guidance on the treatment and presentation of net income and losses attributable to the noncontrolling interest and changes in ownership interests in a subsidiary, and requires additional disclosures that identify and distinguish between the interests of the controlling and noncontrolling owners. Dell adopted the pronouncement in the first quarter of Fiscal 2010. The adoption did not have any impact on Dell's Condensed Consolidated Financial Statements.

Derivative Instruments and Hedging Activities: The pronouncement requires additional disclosures about the objectives of derivative instruments and hedging activities, the method of accounting for such instruments, and a tabular disclosure of the effects of such instruments and related hedged items on Financial Statements. The pronouncement does not change the accounting treatment for derivative instruments. Dell adopted the pronouncement in the first quarter of Fiscal 2010. The adoption did not have a material impact on Dell's Condensed Consolidated Financial Statements. See Note 3 of Notes to Condensed Consolidated Financial Statements for additional information.

Impairments of Debt Securities: The pronouncement changed the impairment recognition and presentation model for debt securities. An other-than-temporary impairment is now triggered when there is intent to sell the security, it is more likely than not that the security will be required to be sold before recovery in value, or the security is not expected to recover its entire amortized cost basis (credit related loss). Credit related losses on debt securities will be considered an other-than-temporary impairment recognized in earnings, and any other losses due to a decline in fair value relative to the amortized cost deemed not to be other-than-temporary will be recorded in other comprehensive income. Dell adopted the pronouncement in the second quarter of Fiscal 2010. The adoption did not have a material impact on Dell's Condensed Consolidated Financial Statements. See Note 3 of Notes to Condensed Consolidated Financial Statements for additional information.