DELL INC
Form 10-K
March 12, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended February 1, 2013
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 (State or other jurisdiction of incorporation or organization)	74-2487834 (I.R.S. Employer Identification No.)

One Dell Way, Round Rock, Texas 78682
(Address of principal executive offices) (Zip Code)
Registrant’s telephone number, including area code: 1-800-289-3355

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

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

Securities registered pursuant to Section 12(g) of the Act: None

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

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 R

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 R 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes R No o

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. R

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 R	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 Act). Yes o No R

Approximate aggregate market value of the registrant's common stock held by non-affiliates as of August 3, 2012, based upon the last sale price reported for such date on the NASDAQ Global Select Market	$17.1 billion
Number of shares of common stock outstanding as of March 6, 2013	1,747,220,324

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DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this report, to the extent not set forth herein, is incorporated by reference from the registrant's proxy statement relating to the annual meeting of stockholders in 2013. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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PART I

All percentage amounts and ratios were calculated using the underlying data in thousands. Unless otherwise noted, all references to time periods refer to our fiscal years. Our fiscal year is the 52 or 53 week period ending on the Friday nearest January 31. The fiscal years ended February 1, 2013 ("Fiscal 2013") and January 28, 2011 ("Fiscal 2011") were 52 week periods, while the fiscal year ended February 3, 2012 ("Fiscal 2012") was a 53 week period.
Unless the context indicates otherwise, references in this report to “we,” “us,” “our” and “Dell” mean Dell Inc. and our consolidated subsidiaries.

ITEM 1 — BUSINESS

General

Dell is a global information technology company that offers its customers a broad range of products and services. We are focused on providing end-to-end technology solutions to our customers.
Dell Inc. is a holding company that conducts its business worldwide through its subsidiaries. We were incorporated in the state of Delaware in 1984. Our global corporate headquarters is located in Round Rock, Texas. When we refer to our company and its business in this report, we are referring to the business and activities of our consolidated subsidiaries.

Merger Agreement

On February 5, 2013, Dell announced that it had signed a definitive agreement and plan of merger (the “merger agreement”) pursuant to which it will be acquired by Denali Holding Inc. (“Parent”), a Delaware corporation owned by Michael S. Dell, the Chairman, Chief Executive Officer and founder of Dell, and investment funds affiliated with Silver Lake Partners, a global private equity firm (“Silver Lake”). Following completion of the transaction, Mr. Dell will continue to lead Dell as Chairman and Chief Executive Officer and will maintain a significant equity investment in Dell by contributing his Dell shares to Parent and making a cash investment in Parent. Subject to the satisfaction or permitted waiver of closing conditions set forth in the merger agreement, the merger is expected to be consummated before the end of the second quarter of the fiscal year ending January 31, 2014.

At the effective time of the merger, each share of Dell's common stock issued and outstanding immediately before the effective time, other than certain excluded shares, will be converted into the right to receive $13.65 in cash, without interest (the “merger consideration”). Shares of common stock held by the Parent and its subsidiaries, shares held by Mr. Dell and certain of Mr. Dell's related parties (together with Mr. Dell, the “MD Investors”), and by Dell or any wholly-owned subsidiary of Dell will not be entitled to receive the merger consideration.

Dell's stockholders will be asked to vote on the adoption of the merger agreement and the merger at a special stockholders meeting that will be held on a date to be announced. The closing of the merger is subject to a non-waivable condition that the merger agreement be adopted by the affirmative vote of the holders of (1) at least a majority of all outstanding shares of common stock and (2) at least a majority of all outstanding shares of common stock held by stockholders other than Parent and its subsidiaries, the MD Investors, any other officers and directors of Dell or any other person having any equity interest in, or any right to acquire any equity interest in, Parent's merger subsidiary or any person of which the merger subsidiary is a direct or indirect subsidiary. Consummation of the merger is also subject to certain customary conditions. The merger agreement does not contain a financing condition.

The merger agreement places limitations on Dell's ability to engage in certain types of transactions without Parent's consent during the period between the signing of the merger agreement and the effective time of the merger. During this period, Dell may not repurchase shares of its common stock or declare dividends in excess of the quarterly rate of $0.08 per share authorized under its current dividend policy. In addition, with limited exceptions, Dell may not incur additional debt other than up to $1.8 billion under its existing commercial paper program, $2.0 billion under its revolving credit facilities, $1.5 billion under its structured financing debt facilities, and up to $25 million of additional indebtedness. Further, other than in transactions in the ordinary course of business or within specified dollar limits and certain other limited exceptions, Dell generally may not acquire other businesses, make investments in other persons, or sell, lease, or encumber its material assets.

Parent has obtained equity and debt financing commitments for the transactions contemplated by the merger agreement, the aggregate proceeds of which, together with the proceeds of a rollover investment of Dell shares in Parent by the MD Investors, an investment in subordinated securities and the available cash of Dell, will be sufficient for Parent to pay the

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aggregate merger consideration and all related fees and expenses. The commitment of financial institutions to provide debt financing for the transaction is subject to a number of customary conditions, including the execution and delivery by the borrowers and the guarantors of definitive documentation consistent with the debt commitment letter.

Pursuant to the terms of a “go-shop” provision in the merger agreement, during the period beginning on the date of the merger agreement and expiring after March 22, 2013, Dell and its subsidiaries and their respective representatives may initiate, solicit and encourage any alternative acquisition proposals from third parties, provide nonpublic information to such third parties and participate in discussions and negotiations with such third parties regarding alternative acquisition proposals. Under the terms and conditions set forth in the merger agreement, before the company stockholder approvals adopting the merger agreement, the Board of Directors may change its recommendation, including in order to approve, and may authorize Dell to enter into, an alternative acquisition proposal if the special committee of the Board of Directors that recommended approval of the merger has determined in good faith, after consultation with outside counsel and its financial advisors, that such alternative acquisition proposal would be more favorable to Dell's stockholders, taking into account all of the terms and conditions of such proposal (including, among other things, the financing, likelihood and timing of its consummation and any adjustments to the merger agreement).

The merger agreement contains certain termination rights for Dell and Parent. Among such rights, and subject to certain limitations, either Dell or Parent may terminate the merger agreement if the merger is not completed by November 5, 2013.

Additional information about the merger agreement is set forth in our current report on Form 8 K filed with the SEC on February 6, 2013.

Business Strategy

Dell built its reputation as a leading technology provider through listening to customers and developing solutions that meet customer needs. A few years ago, we initiated a broad transformation of the company to become an end-to-end technology solutions provider, and we remain committed to this transformation. We believe that changing our corporate structure to align with our product and services business units will allow us to better serve and demonstrate our solutions capabilities to our customers and execute our strategy. This change will correspond with how we intend to manage the performance of our product and services offerings. Accordingly, on January 10, 2013, we announced our intention to replace our current segment reporting structure described in the Operating Business Segments section below with the following product and services business units in the first quarter of Fiscal 2014:

- End-User Computing Group (“EUC”)
- Enterprise Solutions Group (“ESG”)
- Dell Services
- Dell Software Group

EUC will include notebooks, desktop PCs, thin client products, tablets, third-party software, and client-related peripherals. ESG will include servers, networking, storage, converged infrastructure offerings, and ESG-related peripherals. Dell Services will include a broad range of IT and business services, including support and deployment services, infrastructure, cloud, and security services, and applications and business process services. The Dell Software Group will include systems management, security, and information management. See the Product and Services section below for a more detailed discussion of our offerings.

Products and Services

We design, develop, manufacture, market, sell, and support a wide range of products and services.

- Client - We offer a wide variety of client computing devices, including desktop PCs, notebooks, and tablets, designed with customer needs in mind. Our offerings balance performance, manageability, design, and security. In Fiscal 2013, we expanded our thin client offerings through the acquisition of Wyse Technologies, which has enabled us to develop features such as our cloud-based mobile computing offerings. In addition, we introduced a portfolio of Windows-8 touch-enabled tablets and convertibles. Our tablet and convertible solutions are designed to optimize efficiency, while reducing the total cost of ownership for commercial customers, including the use of such solutions in the workplace as part of the "Bring Your Own Device" trend. In addition, our client solutions provide uncompromised performance for the entertainment needs of our consumer customers.

- Servers - Our servers are designed to offer customers affordable performance, reliability, and scalability. Our portfolio includes high performance rack, blade, tower, and hyperscale servers for enterprise customers and value tower servers

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for small organizations, networks, and remote offices. Our hyperscale servers are designed to maximize performance and operating efficiency in the most intense data environments. During Fiscal 2013, we enhanced our servers with features that deliver high performance and flexibility while maximizing energy efficiency. In addition, during the first quarter of Fiscal 2013, we introduced our 12th generation line of PowerEdge servers, which are designed for optimal performance.

- Networking - Our networking solutions are designed to help companies simplify their IT environments. These products employ scalable technologies that help companies of all sizes build for the future. Our networking solutions are designed to lower data center operating costs and improve manageability in high performance computing environments.

- Storage - We offer a comprehensive portfolio of advanced storage solutions, including storage area networks, network-attached storage, direct-attached storage, and various backup systems. Our storage offerings allow customers to grow capacity, add performance, and protect their data in a more economical manner. The flexibility and scalability offered by our storage systems help organizations optimize storage for diverse environments with varied requirements. During Fiscal 2013, we enhanced our storage offerings with a number of new options, including new hardware platforms for greater performance and capacity, new network-attached storage gateways, which provide unified storage solutions, synchronous replication, which offers real time data protection, and enterprise-class storage blade arrays for converged infrastructure offerings.

- Third-party software and peripherals - In connection with the sale of our product offerings, we sell a wide range of peripherals, including monitors, printers, projectors, other client and enterprise peripherals, as well as third-party software products.

- Services - Our services include a broad range of configurable IT and business services, including infrastructure technology, consulting and applications, and product-related support services. We manage our services based on a customer engagement model, which groups our services with similar demand, economic, and delivery profiles into three categories of services: support and deployment services; infrastructure, cloud, and security services; and applications and business process services. Within those categories, we offer a variety of services to our customers as part of an overall solution.

- Support and Deployment Services - Support and deployment services are closely tied to the sale of our hardware offerings, as well as multivendor support services. These services include support and extended warranty services, enterprise installation, and configuration services.

- Infrastructure, Cloud, and Security Services - Infrastructure, cloud, and security services may be performed under multi-year outsourcing arrangements, subscription services, or short-term consulting contracts. These services include infrastructure and security managed services, cloud computing, infrastructure consulting, and security consulting and threat intelligence. We are often responsible for defining the infrastructure technology strategies for our customers through the identification and delivery of new technology offerings and innovations that deliver value to our customers.

- Applications and Business Process Services - Applications services include such services as application development and maintenance, application migration and management services, package implementation, testing and quality assurance functions, business intelligence and data warehouse solutions, and application consulting services. Business process services involve assuming responsibility for certain customer business functions, including back office administration, call center management, and other technical and administration services.

Software - Software is a critical component of enterprise solutions and end-user computing. Accordingly, in early Fiscal 2013, we announced the formation of our software group to expand our ability to execute in this strategic area. Our software offerings consist of system management, security software offerings, and information management. We believe our investments in this area will help support our ongoing strategic transformation to an end-to-end technology solutions provider.

For additional information about the above products and services, see "Part II - Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - Revenue by Product and Services Categories."

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Operating Business Segments

Through Fiscal 2013, we managed our business in four global customer-centric operating segments: Large Enterprise, Public, Small and Medium Business, and Consumer. These operating segments consist of the following types of customers:

- Large Enterprise - Our Large Enterprise customers include large global and national corporate businesses. We are focused on delivering innovative solutions and services to these customers through data center and cloud computing solutions. We believe that continuing our transformation to an end-to-end technology solutions provider will position us for long-term success in this market.

- Public - Our Public customers include educational institutions, government, health care, and law enforcement agencies. These customers have a broad range of unique IT needs, and we strive to expand our leadership and address their urgent IT challenges through the delivery of technology solutions that help them achieve their mission.

- Small and Medium Business ("SMB") - Our SMB segment is focused on helping small and medium-sized businesses get the most out of their technology by offering scalable products, services, and solutions. As cloud computing and workforce mobility become a routine part of a growing business's operations, server and storage virtualization facilitate achievement of the organization's IT goals. Through our mid-market design point focus, we continue to create and deliver SMB-specific solutions so customers worldwide can take advantage of these emerging technologies and grow their businesses.

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

We refer to our Large Enterprise, Public, and SMB segments as "Commercial." For financial information about the results of our reportable operating segments for each of the last three fiscal years, see “Part II - Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - Segment Discussion” and Note 15 of the Notes to the Consolidated Financial Statements included in “Part II - Item 8 - Financial Statements and Supplementary Data.”

Financial Services

We offer or arrange various financing options and services for our Commercial and Consumer customers in the U.S. and Canada through Dell Financial Services ("DFS"). DFS offers a wide range of financial services, including originating, collecting, and servicing customer receivables primarily related to the purchase of Dell products. DFS offers private label credit financing programs to qualified Consumer and Commercial customers and offers leases and fixed-term financing primarily to Commercial customers. Financing through DFS is one of many sources of funding that our customers may select. For additional information about our financing arrangements, see “Part II - Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Dell Financial Services and Financing Receivables” and Note 4 of the Notes to the Consolidated Financial Statements included in “Part II -Item 8 - Financial Statements and Supplementary Data.”

During Fiscal 2012, we entered into a definitive agreement to acquire CIT Vendor Finance's Dell-related financing assets portfolio and sales and servicing functions in Europe for approximately $500 million. Subject to customary closing, regulatory, and other conditions, we expect to complete this transaction in Fiscal 2014. In connection with this transaction, we have filed an application for a bank license with The Central Bank of Ireland to facilitate ongoing financing offerings in Europe. CIT Vendor Finance is currently a Dell financing preferred vendor operating in more than 25 countries and will continue to support Dell for the transition period in Europe. CIT Vendor Finance will also continue to provide financing programs with Dell in select countries around the world after completion of this transaction.

Product Development

We focus on developing scalable technologies that incorporate highly desirable features and capabilities at competitive prices. We employ a collaborative approach to product design and development in which our engineers, with direct customer input, design innovative solutions and work with a global network of technology companies to architect new

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system designs, influence the direction of future development, and integrate new technologies into our products. We manage our research, development, and engineering ("RD&E") spending by targeting those innovations and products that we believe are most valuable to our customers and by relying on the capabilities of our strategic relationships. Through this collaborative, customer-focused approach, we strive to deliver new and relevant products to the market quickly and efficiently.

To further our transformation to an end-to-end technology solutions provider, we have been increasing our investment in research and development activities that support our initiatives to grow our enterprise solutions, services, and software capabilities. We currently operate 17 global research and development centers, including the Dell Silicon Valley Research and Development Center. Our total research, development, and engineering expenses were $1.1 billion, $0.9 billion, and $0.7 billion for Fiscal 2013, Fiscal 2012, and Fiscal 2011, respectively. These increases reflect our focus in shifting our investments to research and development activities that support our initiatives to grow our enterprise solutions, services, and software offerings.

Manufacturing and Materials

Third parties manufacture the majority of the client products we sell under the Dell brand. We use contract manufacturers and manufacturing outsourcing relationships as part of our strategy to enhance our variable cost structure and to achieve our goals of generating cost efficiencies, delivering products faster, better serving our customers, and building a world-class supply chain. Our manufacturing facilities are located in Austin, Texas; Penang, Malaysia; Chengdu, China; Xiamen, China; Hortolândia, Brazil; Chennai, India; and Lodz, Poland. See “Part I - Item 2 - Properties” for information about our manufacturing and distribution locations.

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

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

Geographic Operations

Our global corporate headquarters is located in Round Rock, Texas. We have operations and conduct business in many countries located in the Americas, Europe, the Middle East, Asia and other geographic regions. To increase our global presence, we continue to focus on markets outside of the U.S., Western Europe, Canada, and Japan. Our continued expansion outside of the U.S. creates additional complexity in coordinating the design, development, procurement, manufacturing, distribution, and support of our increasingly complex product and service offerings. For additional information on our product and service offerings, see “Products and Services - Manufacturing and Materials” and “Part I - Item 2 - Properties.” For information about percentages of revenue we generated from our operations outside of the U.S. and other financial information for each of the last three fiscal years, see “Part II - Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations” and

Note 15 of the Notes to the Consolidated Financial Statements included in “Part II - Item 8 - Financial Statements and Supplementary Data."

Competition

We operate in an industry in which there are rapid technological advances in hardware, software, and service offerings and we face ongoing product and price competition in all areas of our business, including from both branded and generic competitors. We compete based on our ability to offer our customers competitive, scalable, and integrated solutions that provide the most current and desired product and services features. We believe that our strong relationships with our

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customers and our distribution channels, described below, allow us to respond to changing customer needs faster than many of our competitors.

Sales and Marketing

We sell our products and services directly to customers and through various other sales distribution channels, such as retailers, third-party solution providers, system integrators, and third-party resellers. Our customers include large global and national corporate businesses, public institutions that include government, education, and healthcare organizations, law enforcement agencies, small and medium-sized businesses, and consumers. No single customer accounted for more than 10% of our consolidated net revenue during any of the last three fiscal years.

Our sales efforts are organized around the evolving needs of our customers, and our marketing initiatives reflect this focus. We believe that our unified global sales and marketing team creates a sales organization that is more customer-focused, collaborative, and innovative. Our direct business model emphasizes direct communication with our customers, thereby allowing us to refine our products and marketing programs for specific customer groups. As part of our transformation to an end-to-end technology solutions provider, we have increased the number of sales specialists focused on enterprise solutions. We market our products and services to small and medium-sized businesses and consumers through various advertising media. Customers may offer suggestions for current and future Dell products, services, and operations on an interactive portion of our Internet website called Dell IdeaStorm. In order to react quickly to our customers' needs, we track our Net Promoter Score, a customer loyalty metric that is widely used across various industries. Increasingly, we also engage with customers through our social media communities on www.dell.com and in external social media channels.

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

Patents, Trademarks, and Licenses

At February 1, 2013, we held a worldwide portfolio of 4,120 patents and had an additional 2,291 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 158 of our other trademarks in the U.S. At February 1, 2013, we had pending applications for registration of 39 other trademarks. We believe that establishment of the DELL word mark and logo mark in the U.S. is material to our operations. We have also applied for or obtained registration of the DELL word mark and several other marks in approximately 182 other countries.

From time to time, other companies and individuals assert exclusive patent, copyright, trademark, or other intellectual property rights to technologies or marks that are important to the technology industry or our business. We evaluate each claim relating to our products and, if appropriate, seek a license to use the protected technology. The licensing agreements generally do not require the licensor to assist us in duplicating its patented technology, nor do these agreements protect us from trade secret, copyright, or other violations by us or our suppliers in developing or selling these products.

Government Regulation and Sustainability

• Government Regulation

Our business is subject to regulation by various U.S. federal and state governmental agencies and other governmental agencies. Such regulation includes the radio frequency emission regulatory activities of the U.S.

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Federal Communications Commission; the anti-trust regulatory activities of the U.S. Federal Trade Commission, the U.S. Department of Justice, and the European Union; the consumer protection laws and financial services regulations of the U.S. Federal Trade Commission and various state governmental agencies; the export regulatory activities of the U.S. Department of Commerce and the U.S. Department of Treasury; the import regulatory activities of U.S. Customs and Border Protection; the product safety regulatory activities of the U.S. Consumer Product Safety Commission and the U.S. Department of Transportation; the investor protection and capital markets regulatory activities of the U.S. Securities and Exchange Commission; the health information privacy and security requirements of the U.S. Department of Health and Human Services; and the environmental, employment and labor, and other regulatory activities of a variety of governmental authorities in each of the countries in which we conduct business. We were not assessed any material environmental fines, nor did we have any material environmental remediation or other environmental costs, during Fiscal 2013.

•Sustainability

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

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

Iran Sanctions

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 added Section 13(r) to the Securities Exchange Act of 1934. Section 13(r) requires an issuer to disclose in its annual or quarterly reports filed with the SEC whether the issuer or any of its affiliates has knowingly engaged in certain activities, transactions or dealings relating to Iran or with designated natural persons or entities involved in terrorism or the proliferation of weapons of mass destruction.

We are disclosing the following information pursuant to Section 13(r) concerning activity by a UK affiliate of Quest Software, Inc. (“Quest Software”), which Dell acquired on September 27, 2012. The disclosure is regarding a maintenance services software renewal transaction with Melli Bank PLC valued at 106.13 British pounds (approximately $169.90 at the exchange rate for U.S. dollars on the renewal date) and marketing activity.

Quest Software specializes in business software. On September 10, 2012, prior to our acquisition of Quest Software, Quest Software (UK) Ltd., then a UK subsidiary of Quest Software, renewed two software maintenance licenses with Melli Bank PLC. The first license, for Quest Recovery Manager for Exchange software, had been in effect for seven years before the renewal, while the second license, for Spotlight on Messaging software, had been in effect for four years before the renewal. Recovery Manager for Exchange software enables users to search and retrieve message-level data and compare contents between different mailboxes. Spotlight on Messaging is a business software program that helps manage messaging and real-time communications and provides troubleshooting solutions. Marketing activity also occurred prior to and after the acquisition with respect to Quest customers generally, including Melli Bank PLC, but no transactions were concluded other than the license renewal transaction.

Melli Bank PLC is a wholly-owned subsidiary of Bank Melli in Iran. Melli Bank PLC is headquartered in London and is listed by the Treasury Department's Office of Foreign Assets Control as a Specially Designated National.

The profit on the license renewal transaction was no more than the annual renewal transaction value indicated above. Following our acquisition of Quest Software and our discovery of the renewal transaction, we terminated all software maintenance activity under the licenses. We will not engage in future activity under the licenses.

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Product Backlog

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

Trademarks and Service Marks

Unless otherwise noted, trademarks appearing in this report are trademarks owned by us. We disclaim proprietary interest in the marks and names of others. FICO is a registered trademark of Fair Isaac and Company. Net Promoter Score is a trademark of Satmetrix Systems, Inc., Bain & Company, Inc., and Fred Reichheld.

Available Information

The mailing address of our principal executive offices is One Dell Way, Round Rock, Texas 78682. Our telephone number is 1-800-289-3355.

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

Employees

At the end of Fiscal 2013, we had approximately 111,300 total employees (consisting of 108,800 regular employees and 2,500 temporary employees), compared to approximately 109,400 total employees (consisting of 106,700 regular employees and 2,700 temporary employees) at the end of Fiscal 2012. Approximately 40,500 of our regular employees at the end of Fiscal 2013 were located in the U.S., and approximately 68,300 regular employees were located in other countries.

Executive Officers of Dell

The following table sets forth the name, age, and position of each of the persons who were serving as our executive officers as of March 8, 2013:

Name	Age	Title
Michael S. Dell	48	Chairman and Chief Executive Officer
Jeffrey W. Clarke	50	Vice Chairman and President, End-User Computing Solutions & Operations
Stephen J. Felice	55	President, Chief Commercial Officer
Brian T. Gladden	48	Senior Vice President and Chief Financial Officer
Marius Haas	45	President, Enterprise Solutions
Steven H. Price	51	Senior Vice President, Human Resources
Karen H. Quintos	49	Senior Vice President, Chief Marketing Officer
John A. Swainson	58	President, Software
Lawrence P. Tu	58	Senior Vice President, General Counsel and Secretary
Suresh Vaswani	53	President, Services

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

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

- Michael S. Dell — Mr. Dell currently serves as Chairman of the Board of Directors and Chief Executive Officer. He has held the title of Chairman of the Board since he founded Dell in 1984. Mr. Dell also served as Chief

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Executive Officer of Dell from 1984 until July 2004 and resumed that role in January 2007. He is an honorary member of the Foundation Board of the World Economic Forum and is an executive committee member of the International Business Council. In addition, he serves as the chairman of the Technology CEO Council and is a member of the U.S. Business Council and the Business Roundtable. He also serves on the governing board of the Indian School of Business in Hyderabad, India, and is a board member of Catalyst, Inc.

- Jeffrey W. Clarke — Mr. Clarke serves as Vice Chairman and President, End User Computing Solutions & Operations. In this role, in which he has served since January 2009, he is responsible for global manufacturing, procurement, and supply chain activities worldwide, as well as the engineering, design and development of desktop PCs, notebooks, and workstations for customers ranging from consumers and small and medium-sized businesses to large corporate enterprises. From January 2003 until January 2009, Mr. Clarke served as Senior Vice President, Business Product Group. From November 2001 to January 2003, Mr. Clarke served as Vice President and General Manager, Relationship Product Group. In 1995, Mr. Clarke became the director of desktop development. Mr. Clarke joined Dell in 1987 as a quality engineer and has served in a variety of engineering and management roles. Mr. Clarke received a Bachelor's degree in Electrical Engineering from the University of Texas at San Antonio.

- Stephen J. Felice — Mr. Felice was named President, Chief Commercial Officer in January 2012. From November 2009 until January 2012, he served as President, Consumer, Small and Medium Business. Mr. Felice leads the Dell organization that creates and delivers specific solutions and technology to Commercial customers globally and is responsible for Dell's portfolio of products, including desktop PCs, laptops, software and peripherals, as well as product design and sales. From January 2009 until November 2009, Mr. Felice served as President, Small and Medium Business, and from March 2007 until January 2009, as Senior Vice President and President, Asia Pacific-Japan, after having served as Vice President, Asia Pacific-Japan since August 2005. In those positions, Mr. Felice was responsible for Dell's operations throughout the APJ region, including sales and customer service centers in Penang, Malaysia, and Xiamen, China. From February 2002 until July 2005, Mr. Felice was Vice President, Corporate Business Group, Dell Americas. Mr. Felice joined Dell in February 1999 and has held various executive roles in our sales and consulting services organizations. Prior to joining Dell, Mr. Felice served as Chief Executive Officer and President of DecisionOne Corp. Mr. Felice also served as Vice President, Planning and Development, with Bell Atlantic Customer Services, and spent five years with Shell Oil in Houston. Mr. Felice holds a Bachelor's degree in Business Administration from the University of Iowa and a Master of Business Administration degree from the University of Houston.

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

- Marius Haas — Marius Haas joined Dell in August 2012 and serves as President, Enterprise Solutions. In this role, he is responsible for worldwide engineering, design, development, and marketing of Dell enterprise solutions, which include servers, networking, and storage systems. From 2011 until August 2012, Mr. Haas served with Kohlberg Kravis Roberts & Co. L.P. ("KKR"), a global private equity firm, where he was responsible for identifying and pursuing new investments, particularly in the technology sector, while also supporting existing portfolio companies with operational expertise. Prior to 2011, Mr. Haas was Senior Vice President and Worldwide General Manager of the Hewlett-Packard ("HP") Networking Division from 2008 to 2011, and also served as Senior Vice President of Strategy and Corporate Development from 2003 to 2008. During his tenure at HP, Mr. Haas led initiatives to improve efficiency and drive growth, including the execution and integration of all acquisitions, and also managed the company's strategic planning process, new business incubation and strategic alliances. Earlier in his career, Mr. Haas held a wide range of senior operations roles at Compaq and Intel Corporation. He also served as a member of the McKinsey & Company CSO Council, the Ernst & Young Corporate Development Leadership Network, and as a board member of the Association of Strategic Alliance Professionals. Mr. Haas holds a Bachelor's degree from Georgetown University and a Master's degree in International Management from the American Graduate School of Integration Management (Thunderbird) in Glendale, Arizona.

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

Karen H. Quintos — Karen Quintos is Senior Vice President and Chief Marketing Officer ("CMO") for Dell, where she leads marketing for Dell's global commercial business. She is also responsible for Dell's brand strategy, global communications, social media, corporate responsibility, customer insights, marketing talent development, and agency management. Ms. Quintos is also the executive sponsor of the largest employee resource group at Dell, Women in Search of Excellence. Before becoming CMO in September 2010, Ms. Quintos served as Vice President of Dell's global Public business, from January 2008 to September 2010, and was responsible for driving global marketing strategies, product and pricing programs, communications, and channel plans. She has also held various executive roles in SMB marketing and Dell's Services and Supply Chain Management teams since joining Dell in 2000. She came to Dell from Citigroup, where she served as Vice President of Global Operations and Technology. She also spent 12 years with Merck & Co., where she held a variety of roles in marketing, planning, operations, and supply chain management. Ms. Quintos holds a Master's degree in Marketing and International Business from New York University and a Bachelor of Science degree in Supply Chain Management from The Pennsylvania State University State College. She has served on multiple boards of directors and currently serves on the Ad Council, the Susan G. Komen for the Cure, and the Penn State's Smeal Business School.

John A. Swainson — Mr. Swainson joined Dell in February 2012. He currently serves as President of Dell's newly formed Software Group. Immediately prior to joining Dell, Mr. Swainson was a Senior Advisor to Silver Lake Partners, a global private equity firm, from May 2010 to February 2012. From February 2005 until December 2009, Mr. Swainson served as Chief Executive Officer and Director of CA, Inc., an enterprise software company. Prior to joining CA, Inc. Mr. Swainson worked for IBM for over 26 years, where he held various management positions in the U.S. and Canada, including seven years in the role of General Manager of the Application Integration Middleware Division. Mr. Swainson holds a Bachelor's degree in Engineering from the University of British Colombia, Canada. He currently serves on the board of directors of Visa Inc. Mr. Swainson also served on the boards of directors of Cadence Design Systems, Inc., from February 2006 to May 2012, Assurant Inc., from May 2010 to May 2012, and Broadcom Corporation, from August 2010 to May 2012.

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

Suresh C. Vaswani — Suresh Vaswani joined Dell in April 2011, and was named President of Services, the global IT services and business solutions unit of Dell, in December 2012. In this role, he is responsible for developing and delivering end-to-end IT services and business solutions for various customers. From April 2011 to December 2012, Mr. Vaswani led the global Applications & Business Process Outsourcing services business for Dell Services. He also served as chairman for Dell India. In this role, Mr. Vaswani was responsible for building

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next-generation solutions, providing strategic leadership to grow and expand Dell's presence and position in the region, and enhancing Dell's capabilities in India with regard to IT services, delivery, manufacturing, and operations. Prior to joining Dell, Mr. Vaswani was joint-CEO of Wipro Limited's IT business and a member of the board of directors of that company. Mr. Vaswani holds an Engineering degree from the Indian Institute of Technology, Kharagpur and a degree in Business Administration from the Indian Institute of Management, Ahmedabad.

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ITEM 1A — RISK FACTORS

Our business, operating results, financial condition, and prospects are subject to a variety of significant risks, many of which are beyond our control. The following is a description of some of the important risk factors that may cause our actual results in future periods to differ substantially from those we currently expect or seek. The risks described below are not the only risks facing us. There are additional risks and uncertainties not currently known to us or that we currently deem to be immaterial that also may materially adversely affect our business, operating results, financial condition, or prospects.

- If our proposed merger does not close, our operations after any termination of the merger agreement may suffer from the effects of business uncertainties resulting from announcement of the transaction, contractual restrictions on our activities during the period in which we are subject to the merger agreement, and costs associated with the proposed transaction.

Uncertainty about the effect of the proposed merger on our employees, customers, and other parties may have an adverse effect on our business. Such uncertainty may impair our ability to attract, retain, and motivate key personnel, including our executive leadership, and could cause customers, suppliers, financial counterparties, and others to seek to change existing business relationships with us.

The merger agreement restricts us, without the consent of the other merger parties, from making certain acquisitions and investments, from accessing the debt and capital markets, and from taking other specified actions until the proposed merger occurs or the merger agreement terminates. The restrictions may prevent us from pursuing otherwise attractive business opportunities and taking other actions with respect to our business that we may consider advantageous.

Our costs of accessing funds in the debt and capital markets may continue for some period to be higher than before execution of the merger agreement as a result of the downgrading of our credit rating that occurred after announcement of the transaction.

We have incurred, and will continue to incur, significant costs, expenses, and fees for professional services and other transaction costs in connection with the proposed merger. Many of the fees and costs will be payable by us even if the merger is not completed.

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

We operate in an industry in which there are rapid technological advances in hardware, software, and service offerings, and we face aggressive product and price competition from both branded and generic competitors. We compete based on our ability to offer to our customers competitive integrated solutions that provide the most current and desired product and services features. We expect that competition will continue to be intense, and there is a risk that our competitors' products may be less costly, provide better performance or include additional features when compared to our products. Additionally, there is a risk that our product portfolios may quickly become outdated or our market share may quickly erode. Moreover, our efforts to balance our mix of products and services to optimize profitability, liquidity, and growth may put pressure on our industry position.

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

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

We maintain several single-source or limited-source supplier relationships, including our relationships with third-party software providers, either because multiple sources are not readily available or because the relationships are advantageous to us due to performance, quality, support, delivery, capacity, or price considerations. If the supply of a

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critical single- or limited-source product or component is delayed or curtailed, we may not be able to ship the related product in desired quantities or configurations, or in a timely manner. In addition, we may not be able to replace the functionality provided by the third-party software currently offered with our products if that software becomes obsolete, defective, or incompatible with future versions of our products or is not adequately maintained or updated. 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 our operating results.

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

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

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

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

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

As a global company with customers in virtually every business and industry, our performance depends significantly on global economic conditions. Adverse economic conditions, including in many countries in Europe, where we derived a significant portion of our consolidated net revenue for Fiscal 2013, may negatively affect customer demand for our products and services. Such economic conditions could result in postponed or decreased spending amid customer concerns over unemployment, reduced asset values, volatile energy costs, geopolitical issues, the availability and cost of credit, and the stability and solvency of financial institutions, financial markets, businesses, local and state governments, and sovereign nations. Weak global economic conditions also could harm our business by contributing to potential product shortages or delays, insolvency of key suppliers, potential customer and counterparty insolvencies, and increased challenges in conducting our treasury operations. All of these possible effects of weak global economic conditions could negatively impact our net revenue and profitability.

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

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

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- We may not successfully implement our acquisition strategy.

We acquire companies as a part of our growth strategy. These acquisitions may involve significant new risks and uncertainties that could adversely affect our profitability or operations, including distraction of management attention from a focus on our current business operations, increased debt, insufficient new revenue to offset expenses, inadequate return of capital, integration challenges, inability to retain employees of acquired businesses, new regulatory requirements, and liabilities and other exposures not discovered in our due diligence process. Further, our acquisitions may negatively impact our relationships with strategic partners if these acquisitions are seen as bringing us into competition with such partners. In addition, if we make changes in our business strategy or if external conditions adversely affect our business operations, we may be required to record an impairment charge to goodwill or intangible assets. Our business could also be adversely impacted if recently or future acquired businesses perform worse than expected or if we do not realize expected operating efficiencies or integration benefits in a timely manner or at all.

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

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

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

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

- We may lose customers and experience diminished profitability if we fail to deliver products and services of consistent quality.

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

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

Sales outside the U.S. accounted for approximately 50% of our consolidated net revenue for Fiscal 2013. Our future growth rates and success are substantially dependent on the continued growth of our business outside the U.S. Our international operations face many risks and uncertainties, including varied local economic and labor conditions, political instability, changes in the U.S. and international regulatory environments, trade protection measures, tax laws (including U.S. taxes on foreign operations), copyright levies, and foreign currency exchange rates. Any of these factors could adversely affect our operations and profitability.

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

Our overall profitability for any particular period may be adversely affected by changes in the mix of products, customers, and geographic markets reflected in our sales for that period, as well as by seasonal trends. Our profit margins vary among products, services, customers, and geographic markets. For instance, our services offerings generally have a higher profit margin than our consumer products. In addition, parts of our business are subject to

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seasonal sales trends. Among the trends with the most significant impact on our operating results, sales to government customers (particularly the U.S. federal government) are typically stronger in our third fiscal quarter, sales in Europe, the Middle East, and Africa ("EMEA") are often weaker in our third fiscal quarter, and consumer sales are typically strongest during our fourth fiscal quarter.

- We may lose revenue opportunities and experience gross margin pressure if our sales channel participants fail to perform as we expect.

In recent years, we have added third-party distributors, retailers, systems integrators, value-added resellers, and other sales channels to complement our direct sales organization so that we can reach even more end-users around the world. Our future operating results increasingly will depend on the performance of our sales channel participants and on our success in maintaining and developing our relationships with those sales channels. Our revenue and gross margins could be negatively affected if the financial condition or operations of our channel participants weaken as a result of adverse economic conditions or other business challenges, or if uncertainty regarding the demand for our products causes our channel participants to reduce their orders for our products. Further, some channel participants may consider the expansion of our direct sales initiatives to conflict with their business interests as distributors or resellers of our products, which could lead them to reduce their investment in the distribution and sale of our products, or to cease all sales of our products.

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

In recent years, we have been increasingly dependent on access to debt and capital sources to provide financing for our customers and to obtain funds in the U.S. for general corporate purposes, including working capital, acquisitions, capital expenditures, funding of customer receivables, and share repurchases. In addition, we have customer financing relationships with some companies that rely on access to the debt and capital markets to meet significant funding needs. Any inability of these companies to access such markets could compel us to self-fund transactions with them or forgo customer financing opportunities, potentially harming our financial performance. The debt and capital markets may experience extreme volatility and disruption from time to time in the future, which could result in higher credit spreads in such markets and higher funding costs for us. Deterioration in our business performance, a credit rating downgrade, volatility in the securitization markets, changes in financial services regulation, or adverse changes in the economy could lead to reductions in debt availability. In addition, these events could also limit our ability to continue asset securitizations or other forms of financing from debt or capital sources, reduce the amount of financing receivables that we originate, or negatively affect the costs or terms on which we may be able to obtain capital, either in transactions permitted under the merger agreement or otherwise if our proposed merger does not close. Any of these developments could unfavorably affect our net revenue, profitability, and cash flows.

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

Our financial services activities are negatively affected by an adverse economic environment through related loan delinquencies and defaults. Although loan delinquencies and defaults have improved from higher levels in recent periods, an increase in defaults would result in greater net credit losses, which may require us to increase our reserves for customer receivables in the future. In addition, the implementation of new financial services regulation, or the application of existing financial services regulation in new countries where we expand our financial services activities and related supporting activities, including those related to the banking entity we are establishing in Ireland, could unfavorably impact the profitability and cash flows of our consumer financing activities.

- We are subject to counterparty default risks.

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

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

Many of our services contracts allow customers to take actions that may adversely affect our revenue and profitability. These actions include terminating a contract if our performance does not meet specified service levels, looking to a benchmarker's opinion of market rates in order to request a rate reduction or contract termination from us, reducing their use of our services, or terminating a contract early upon payment of agreed fees. In addition, we estimate our costs to deliver the services at the outset of the contract. If we fail to estimate accurately, our actual costs may significantly exceed our estimates, even for a time and materials contract, and we may incur losses on the services contracts.

- Loss of government contracts could harm our business.

Contracts with the U.S. federal, state, and local governments and foreign governments are subject to future funding that may affect the extension or termination of programs and are subject to the right of governments to terminate for convenience or non-appropriation. There is pressure for governments, both domestically and internationally, to reduce spending. Funding reductions or delays could adversely impact public sector demand for our products and services. In addition, if we violate legal or regulatory requirements, the applicable government could suspend or disbar us as a contractor, which would unfavorably affect our net revenue and profitability.

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

If we or our suppliers are unable to develop or protect desirable technology or technology licenses, we may be prevented from marketing products, could be forced to market products without desirable features, or could incur substantial costs to redesign products, defend or enforce legal actions, or pay damages if we are found to have violated others' intellectual property. Although our suppliers might be contractually obligated to obtain or protect such licenses and indemnify us against related expenses, those suppliers could be unable to meet their obligations. Similarly, we invest in research and development and obtain additional intellectual property through acquisitions, but these activities do not guarantee that we will develop or obtain intellectual property necessary for profitable operations. Costs involved in developing and protecting rights in intellectual property may have a negative impact on our business. In addition, our operating costs could increase because of copyright levies or similar fees by rights holders and collection agencies in European and other countries.

- Infrastructure disruptions could harm our business.

We depend on our information technology and manufacturing infrastructure to achieve our business objectives. A disruption of our infrastructure could be caused by a natural disaster, manufacturing failure, telecommunications system failure, or defective or improperly installed new or upgraded business management systems. Portions of our IT infrastructure also may experience interruptions, delays, or cessations of service or produce errors in connection with systems integration or migration work that takes place from time to time. In the event of any such disruption, we may be unable to receive or process orders, manufacture and ship products in a timely manner, or otherwise conduct our business in the normal course. Moreover, portions of our services business involve the processing, storage, and transmission of data, which would also be negatively affected by such an event. A disruption of our infrastructure could cause us to lose customers and revenue, particularly during a period of heavy demand for our products and services. We also could incur significant expense in repairing system damage and taking other remedial measures.

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We could suffer a loss of revenue and increased costs, exposure to significant liability, reputational harm, and other serious negative consequences if we sustain cyber attacks or other data security breaches that disrupt our operations or result in the dissemination of proprietary or confidential information about us or our customers or other third parties.

We manage and store various proprietary information and sensitive or confidential data relating to our operations. In addition, our outsourcing services and cloud computing businesses routinely process, store, and transmit large amounts of data for our customers, including sensitive and personally identifiable information. We may be subject to breaches of the information technology systems we use for these purposes. Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of third parties, create system disruptions, or cause shutdowns. Computer programmers and hackers also may

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be able to develop and deploy viruses, worms, and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including "bugs" and other problems that could unexpectedly interfere with the operation of the system.

The costs to us to eliminate or address the foregoing security problems and security vulnerabilities before or after a cyber incident could be significant. Our remediation efforts may not be successful and could result in interruptions, delays, or cessation of service, and loss of existing or potential customers that may impede our sales, manufacturing, distribution, or other critical functions. We could lose existing or potential customers for outsourcing services or other information technology solutions in connection with any actual or perceived security vulnerabilities in our products. In addition, breaches of our security measures and the unapproved dissemination of proprietary information or sensitive or confidential data about us or our customers or other third parties, could expose us, our customers, or other third parties affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation, or otherwise harm our business. Further, we rely in certain limited capacities on third-party data management providers whose possible security problems and security vulnerabilities may have similar effects on us.

We are subject to laws, rules, and regulations in the U.S. and other countries relating to the collection, use, and security of user data. Our ability to execute transactions and to possess and use personal information and data in conducting our business subjects us to legislative and regulatory burdens that may require us to notify customers or employees of a data security breach. We have incurred, and will continue to incur, significant expenses to comply with mandatory privacy and security standards and protocols imposed by law, regulation, industry standards, or contractual obligations.

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

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

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

Portions of our operations are subject to a reduced tax rate or are free of tax under various tax holidays that expire in whole or in part from time to time. Many of these holidays may be extended when certain conditions are met, or terminated if certain conditions are not met. If the tax holidays are not extended, or if we fail to satisfy the conditions of the reduced tax rate, then our effective tax rate would increase in the future. Our effective tax rate could also increase if our geographic sales mix changes. In addition, any actions by us to repatriate non-U.S. earnings for which we have not previously provided for U.S. taxes may impact our effective tax rate.

The application of tax laws to our operations and past transactions involves some inherent uncertainty. We are continually under audit in various tax jurisdictions. Although we believe our tax positions are appropriate, we may not be successful in resolving potential tax claims that arise from these audits. An unfavorable outcome in certain of these matters could result in a substantial increase to our tax expense. In addition, our provision for income taxes could be impacted by changes in the valuation of deferred tax assets.

In addition, changes in tax laws (including laws relating to U.S. taxes on foreign operations) could adversely affect our operations and profitability. In recent years, numerous legislative, judicial, and administrative changes have been made in the provisions of tax laws applicable to us and companies similar to us. Additional changes to the tax laws are likely to continue to occur, and such changes may adversely affect our tax liability.

• Our profitability could suffer from any impairment of our portfolio investments.

We invest a significant portion of our available funds in a portfolio consisting primarily of debt securities of various types and maturities pending the deployment of these funds in our business. Our earnings performance could suffer

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from any impairment of our investments. Our portfolio securities generally are classified as available-for-sale and are recorded on our Consolidated Statements of Financial Position at fair value. If any such investments experience market price declines, we may recognize in earnings the decline in the fair market value of such investments below their cost or carrying value when the decline is determined to be other than temporary.

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

We are involved in various claims, suits, investigations, and legal proceedings that arise from time to time in the ordinary course of our business, and in connection with our proposed merger, including those described elsewhere in this report. Additional legal claims or regulatory matters may arise in the future and could involve stockholder, consumer, government regulatory and compliance, intellectual property, antitrust, tax, and other issues on a global basis. Litigation is inherently unpredictable. Regardless of the merits of the claims, litigation may be both time-consuming and disruptive to our business. We could incur judgments or enter into settlements of claims that could adversely affect our operating results or cash flows in a particular period. In addition, our business, operating results, and financial condition could be adversely affected if any infringement or other intellectual property claim made against us by any third party is successful, or if we fail to develop non-infringing technology or license the proprietary rights on commercially reasonable terms and conditions.

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

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

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

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

- Compliance requirements of current or future environmental and safety laws, or other regulatory laws, may increase our costs, expose us to potential liability, and otherwise harm our business.

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

In addition, we are subject to provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act intended to improve transparency and accountability concerning the supply of minerals originating from the conflict zones of the Democratic Republic of Congo or adjoining countries. We are incurring costs to comply with the new disclosure requirements of this law and may realize other costs relating to the sourcing and availability of minerals used in our products. Further, since our supply chain is complex, we may face reputational harm if our customers or other stakeholders conclude that we are unable to verify sufficiently the origins of the minerals used in the products we sell.

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

Armed hostilities, terrorism, natural disasters, or public health issues, whether in the U.S. or abroad, could cause damage or disruption to us, our suppliers, or our customers, or could create political or economic instability, any of which could harm our business. For example, the earthquake and tsunami in Japan and severe flooding in Thailand which occurred during Fiscal 2012 caused damage to infrastructure and factories that disrupted the supply chain for a variety of components used in our products. Any such future events could cause a decrease in demand for our products, could make it difficult or impossible for us to deliver products or for our suppliers to deliver components, and could create delays and inefficiencies in our supply chain.

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ITEM 1B — UNRESOLVED STAFF COMMENTS

None.

ITEM 2 — PROPERTIES

At February 1, 2013, we owned or leased a total of approximately 20.0 million square feet of office, manufacturing, and warehouse space worldwide, approximately 8.5 million square feet of which is located in the U.S. We owned approximately 49% of this space and leased the remaining 51%. Included in these amounts are approximately 0.8 million square feet that is either vacant or sublet.

Our principal executive offices, including global headquarters, are located at One Dell Way, Round Rock, Texas. Our business centers, which include facilities that contain operations for sales, technical support, administrative, and support functions, occupy 13.9 million square feet of space, of which we own 45%. Our manufacturing operations occupy 2.8 million square feet of manufacturing space, of which we own 79%. In addition, our research and development centers are housed in 2.5 million square feet of space, of which we own 38%.

During Fiscal 2013, we continued construction of a business center in Coimbatore, India. We expect to open this facility in early Fiscal 2014. We believe that our existing properties are suitable and adequate for our current needs and that we can readily meet our requirements for additional space at competitive rates by extending expiring leases or by finding alternative space.

As discussed in “Part I — Item 1 — Business,” through Fiscal 2013, we managed our business in four global customer-centric operating segments: Large Enterprise, Public, Small and Medium Business, and Consumer. Because of the interrelation of the products and services offered in each of these segments, we do not designate our properties to any segment. All four segments use substantially all of the properties at least in part, and we retain the flexibility to make future use of each of the properties available to each of the segments.

ITEM 3 — LEGAL PROCEEDINGS

The information required by this Item 3 is incorporated herein by reference to the information set forth under the caption “Legal Matters” in Note 10 of the Notes to the Consolidated Financial Statements included in “Part II — Item 8 — Financial Statements and Supplementary Data.”

ITEM 4 — MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

Market for Common Stock

Our common stock is listed on the NASDAQ Global Select Market of The NASDAQ Stock Market LLC under the symbol DELL. Information regarding the high and low sales prices per share of our common stock for Fiscal 2013 and Fiscal 2012, as reported by the NASDAQ Global Select Market, is set forth below:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal year ended February 1, 2013:				
High	$18.36	$15.92	$12.77	$14.17
Low	$15.77	$11.39	$9.11	$8.69
Fiscal year ended February 3, 2012:				
High	$15.98	$17.60	$16.65	$17.88
Low	$12.99	$15.34	$13.29	$14.15

Dividends

On June 12, 2012, we announced that our Board of Directors adopted a dividend policy under which we paid quarterly cash dividends of $0.08 per share in the third and fourth quarters of Fiscal 2013. We intend to continue to pay quarterly dividends subject to the Board's continuing determination that the policy and the declaration of dividends thereunder are in the best interest of our stockholders and are in compliance with applicable law. The Board of Directors retains the power to modify, suspend, or cancel our dividend policy in any manner and at any time that it may deem necessary or appropriate in the future. Under the merger agreement described in “Part I - Business - Merger Agreement,” we may not pay dividends with a quarterly rate greater than the rate of $0.08 per share authorized under our current dividend policy.

Holders

At March 6, 2013, there were 26,526 holders of record of Dell common stock.

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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 S&P Information Technology 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, 2008, and assumes the reinvestment of all dividends. The graph depicts the change in the value of our common stock relative to the indices at the end of each fiscal year and not for any interim period. Historical stock price performance is not necessarily indicative of future stock price performance.

	2008	2009	2010	2011	2012	2013
Dell Inc.	$100.00	$46.68	$63.39	$64.62	$86.78	$68.05
S&P 500	$100.00	$61.37	$81.71	$99.84	$104.05	$121.51
S&P Information Technology	$100.00	$63.00	$96.23	$120.69	$127.63	$138.01

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ITEM 6 — SELECTED FINANCIAL DATA

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

	Fiscal Year Ended				
	February 1, 2013	February 3, 2012 [a]	January 28, 2011	January 29, 2010	January 30, 2009
	(in millions, except per share data)				
Results of Operations:					
Net revenue	$56,940	$62,071	$61,494	$52,902	$61,101
Gross margin	$12,186	$13,811	$11,396	$9,261	$10,957
Operating income	$3,012	$4,431	$3,433	$2,172	$3,190
Income before income taxes	$2,841	$4,240	$3,350	$2,024	$3,324
Net income	$2,372	$3,492	$2,635	$1,433	$2,478
Earnings per share:					
Basic	$1.36	$1.90	$1.36	$0.73	$1.25
Diluted	$1.35	$1.88	$1.35	$0.73	$1.25
Cash dividends declared per common share	$0.16	$—	$—	$—	$—
Number of weighted-average shares outstanding:					
Basic	1,745	1,838	1,944	1,954	1,980
Diluted	1,755	1,853	1,955	1,962	1,986
Cash Flow & Balance Sheet Data:					
Net cash provided by operating activities	$3,283	$5,527	$3,969	$3,906	$1,894
Cash, cash equivalents and investments	$15,342	$18,222	$15,069	$11,789	$9,546
Total assets	$47,540	$44,533	$38,599	$33,652	$26,500
Short-term borrowings	$3,843	$2,867	$851	$663	$113
Long-term debt	$5,242	$6,387	$5,146	$3,417	$1,898
Total stockholders' equity	$10,701	$8,917	$7,766	$5,641	$4,271

[a] The fiscal year ended February 3, 2012 included 53 weeks.

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

All percentage amounts and ratios presented in this management's discussion and analysis were calculated using the underlying data in thousands. Unless otherwise indicated, all changes identified for the current-period results represent comparisons to results for the prior corresponding fiscal periods. Our fiscal year is the 52 or 53 week period ending on the Friday nearest January 31. The fiscal years ended February 1, 2013 ("Fiscal 2013") and January 28, 2011 ("Fiscal 2011") were 52 week periods, while the fiscal year ended February 3, 2012 ("Fiscal 2012") was a 53 week period. Unless the context indicates otherwise, references in this management's discussion and analysis to "we," "us," "our" and "Dell" mean Dell Inc. and our consolidated subsidiaries. This section should be read in conjunction with "Part II — Item 8 — Financial Statements and Supplementary Data."

INTRODUCTION

We are a leading global information technology company that offers our customers a broad range of products and services. We built our reputation through listening to customers and developing solutions that meet their needs. A few years ago, we initiated a broad transformation of the company to become an end-to-end technology solutions provider, and we continue to remain focused on this strategy. A key component of this transformation is to continue shifting our portfolio to products and services that provide higher-value and recurring revenue streams over time. As part of this strategy, we emphasize expansion of our enterprise solutions, which include servers, networking, and storage, as well as our services and software capabilities. We believe the most attractive areas for profitable growth in this business include data center and information management, cloud computing, and software. Our client offerings also continue to be an important element of our strategic transformation to an end-to-end technology solutions provider. We believe the strategic and profitable expansion of our client offerings is critical to our long-term success.

To complement this strategy, since the beginning of Fiscal 2012, we have acquired more than twelve businesses whose offerings we can leverage with our global customer base and distribution. These acquisitions have extended our core capabilities in a variety of enterprise offerings, including storage, networking, virtualized server, data center, and desktop solutions, and software-as-a-service application integration, as well as enabled expansion of our customer financing activities. We completed nine of these acquisitions in Fiscal 2013, including our acquisitions of SonicWALL, Wyse Technology, and Quest Software. For further discussion regarding our acquisitions, see Note 7 of the Notes to the Consolidated Financial Statements included in "Part II - Item 8 - Financial Statements and Supplementary Data."

We believe that changing our corporate structure to align with our product and services business units will allow us to better serve and demonstrate our solutions capabilities to our customers and execute our strategy. This change will correspond with how we intend to manage the performance of our product and services offerings. Accordingly, on January 10, 2013, we announced our intention to replace our current segment reporting structure with the following product and services business units in the first quarter of Fiscal 2014:

- End-User Computing Group ("EUC")
- Enterprise Solutions Group ("ESG")
- Dell Services
- Dell Software Group

Through Fiscal 2013, we continued to manage our business in four global customer-centric operating segments: Large Enterprise, Public, Small and Medium Business ("SMB"), and Consumer. We also refer to our Large Enterprise, Public, and SMB segments as "Commercial." For further discussion regarding our segments, see Note 15 of the Notes to the Consolidated Financial Statements included in "Part II - Item 8 - Financial Statements and Supplementary Data."

Merger Agreement

On February 5, 2013, Dell announced that it had signed a definitive agreement and plan of merger (the “merger agreement”) pursuant to which it will be acquired by Denali Holding Inc. (“Parent”), a Delaware corporation owned by Michael S. Dell, the Chairman, Chief Executive Officer and founder of Dell, and investment funds affiliated with Silver Lake Partners, a global private equity firm (“Silver Lake”). Following completion of the transaction, Mr. Dell will continue to lead Dell as Chairman and Chief Executive Officer and will maintain a significant equity investment in Dell by contributing his Dell shares to Parent and making a cash investment in Parent. Subject to the satisfaction or permitted waiver of closing conditions set forth in the

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merger agreement, the merger is expected to be consummated before the end of the second quarter of the fiscal year ending January 31, 2014.

At the effective time of the merger, each share of Dell's common stock issued and outstanding immediately before the effective time, other than certain excluded shares, will be converted into the right to receive $13.65 in cash, without interest (the "merger consideration"). Shares of common stock held by the Parent and its subsidiaries, shares held by Mr. Dell and certain of Mr. Dell's related parties (together with Mr. Dell, the "MD Investors"), and by Dell or any wholly-owned subsidiary of Dell will not be entitled to receive the merger consideration.

Dell's stockholders will be asked to vote on the adoption of the merger agreement and the merger at a special stockholders meeting that will be held on a date to be announced. The closing of the merger is subject to a non-waivable condition that the merger agreement be adopted by the affirmative vote of the holders of (1) at least a majority of all outstanding shares of common stock and (2) at least a majority of all outstanding shares of common stock held by stockholders other than Parent and its subsidiaries, the MD Investors, any other officers and directors of Dell or any other person having any equity interest in, or any right to acquire any equity interest in, Parent's merger subsidiary or any person of which the merger subsidiary is a direct or indirect subsidiary. Consummation of the merger is also subject to certain customary conditions. The merger agreement does not contain a financing condition.

The merger agreement places limitations on Dell's ability to engage in certain types of transactions without Parent's consent during the period between the signing of the merger agreement and the effective time of the merger. During this period, Dell may not repurchase shares of its common stock or declare dividends in excess of the quarterly rate of $0.08 per share authorized under its current dividend policy. In addition, with limited exceptions, Dell may not incur additional debt other than up to $1.8 billion under its existing commercial paper program, $2.0 billion under its revolving credit facilities, $1.5 billion under its structured financing debt facilities, and up to $25 million of additional indebtedness. Further, other than in transactions in the ordinary course of business or within specified dollar limits and certain other limited exceptions, Dell generally may not acquire other businesses, make investments in other persons, or sell, lease, or encumber its material assets.

Parent has obtained equity and debt financing commitments for the transactions contemplated by the merger agreement, the aggregate proceeds of which, together with the proceeds of a rollover investment of Dell shares in Parent by the MD Investors, an investment in subordinated securities and the available cash of Dell, will be sufficient for Parent to pay the aggregate merger consideration and all related fees and expenses. The commitment of financial institutions to provide debt financing for the transaction is subject to a number of customary conditions, including the execution and delivery by the borrowers and the guarantors of definitive documentation consistent with the debt commitment letter.

Pursuant to the terms of a "go-shop" provision in the merger agreement, during the period beginning on the date of the merger agreement and expiring after March 22, 2013, Dell and its subsidiaries and their respective representatives may initiate, solicit and encourage any alternative acquisition proposals from third parties, provide nonpublic information to such third parties and participate in discussions and negotiations with such third parties regarding alternative acquisition proposals. Under the terms and conditions set forth in the merger agreement, before the company stockholder approvals adopting the merger agreement, the Board of Directors may change its recommendation, including in order to approve, and may authorize Dell to enter into, an alternative acquisition proposal if the special committee of the Board of Directors that recommended approval of the merger has determined in good faith, after consultation with outside counsel and its financial advisors, that such alternative acquisition proposal would be more favorable to Dell's stockholders, taking into account all of the terms and conditions of such proposal (including, among other things, the financing, likelihood and timing of its consummation and any adjustments to the merger agreement).

The merger agreement contains certain termination rights for Dell and Parent. Among such rights, and subject to certain limitations, either Dell or Parent may terminate the merger agreement if the merger is not completed by November 5, 2013.

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Presentation of Supplemental Non-GAAP Financial Measures

In this management's discussion and analysis, we use supplemental measures of our performance, which are derived from our consolidated financial information, but which are not presented in our consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). These financial measures, which are considered “non-GAAP financial measures” under SEC rules, include our non-GAAP gross margin, non-GAAP operating expenses, non-GAAP operating income, non-GAAP net income and non-GAAP earnings per share. See “Results of Operations — Non-GAAP Financial Measures” below for information about our use of these non-GAAP financial measures, including our reasons for including the measures, material limitations with respect to the usefulness of the measures, and a reconciliation of each non-GAAP financial measure to the most directly comparable GAAP financial measure.

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RESULTS OF OPERATIONS

Consolidated Operations

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

	Fiscal Year Ended								
	February 1, 2013				February 3, 2012			January 28, 2011	
	Dollars	% of Revenue	% Change		Dollars	% of Revenue	% Change	Dollars	% of Revenue
	(in millions, except per share amounts and percentages)								
Net revenue:									
Product	$44,744	78.6 %	(10)%		$49,906	80.4 %	— %	$50,002	81.3 %
Services, including software related	12,196	21.4 %	— %		12,165	19.6 %	6 %	11,492	18.7 %
Total net revenue	$56,940	100.0 %	(8)%		$62,071	100.0 %	1 %	$61,494	100.0 %
Gross margin:									
Product	$8,061	18.0 %	(21)%		$10,217	20.5 %	29 %	$7,934	15.9 %
Services, including software related	4,125	33.8 %	15 %		3,594	29.5 %	4 %	3,462	30.1 %
Total gross margin	$12,186	21.4 %	(12)%		$13,811	22.3 %	21 %	$11,396	18.5 %
Operating expenses	$9,174	16.1 %	(2)%		$9,380	15.2 %	18 %	$7,963	12.9 %
Operating income	$3,012	5.3 %	(32)%		$4,431	7.1 %	29 %	$3,433	5.6 %
Net income	$2,372	4.2 %	(32)%		$3,492	5.6 %	33 %	$2,635	4.3 %
Earnings per share — diluted	$1.35	N/A	(28)%		$1.88	N/A	39 %	$1.35	N/A
Other Financial Information [(a)]									
Non-GAAP gross margin	$12,708	22.3 %	(10)%		$14,165	22.8 %	21 %	$11,731	19.1 %
Non-GAAP operating expenses	$8,735	15.3 %	(3)%		$9,030	14.5 %	19 %	$7,582	12.3 %
Non-GAAP operating income	$3,973	7.0 %	(23)%		$5,135	8.3 %	24 %	$4,149	6.7 %
Non-GAAP net income	$3,017	5.3 %	(24)%		$3,952	6.4 %	27 %	$3,106	5.1 %
Non-GAAP earnings per share - diluted	$1.72	N/A	(19)%		$2.13	N/A	34 %	$1.59	N/A

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

Overview

During 2013, our total revenue decreased 8% from the prior fiscal year. This decrease was primarily driven by a decrease in revenue from our Consumer segment, though all of our segments experienced declines in revenue during Fiscal 2013. These declines were due to weak global macro-economic conditions, competitive pricing dynamics, and increased competition from alternative mobile devices. These dynamics particularly impacted demand for our client products.

The Company is currently undergoing a strategic transformation to an end-to-end technology solutions provider, and we recognize that this transformation will take more time and investment. We expect the challenging environment we experienced in Fiscal 2013 to continue into Fiscal 2014. In the long-run, we believe that we will profitably grow revenue and operating income through the expansion of our enterprise solutions, services, and software businesses, the stabilization and strategic extension of our client offerings, and the continued execution of various cost savings initiatives. We are committed to our strategy to provide end-to-end technology solutions to our customers, and we are continuing to make investments that improve our solutions capabilities. We will continue to balance liquidity, profitability, and growth to position the company for long-term success.

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During Fiscal 2013, net revenue from our Consumer customers decreased 20%, and represented approximately 19% of our total net revenue, while net revenue from our Commercial segments decreased 5%, driven by an 8% decline in net revenue from our Public customers, who continue to experience budgetary constraints, and a 5% decrease in net revenue from our Large Enterprise customers. Net revenue from our SMB segment decreased 1% during Fiscal 2013. All of our Commercial segments experienced declines in revenue from client products, though for our Large Enterprise and SMB segments, these declines were partially offset by increases in revenue from our enterprise solutions and services offerings. Overall, revenue from our client products decreased 15% during Fiscal 2013. The challenges in our client business were partially offset by increases in revenue from enterprise solutions and services. During Fiscal 2013, revenue from our enterprise solutions and services increased 4% and represented 34% of total net revenue, compared to 30% of total net revenue in Fiscal 2012. In addition, gross margin from this area grew to more than 50% of total gross margin during Fiscal 2013. Our Fiscal 2013 software acquisitions, which primarily consist of Quest Software and SonicWALL, are included in the results reported for enterprise solutions and services.

During Fiscal 2013, our consolidated operating income as a percentage of net revenue decreased 180 basis points to 5.3%. For our Commercial segments, operating income as a percentage of net revenue decreased 110 basis points to 9.3% during Fiscal 2013. For our Consumer segment, operating income as a percentage of net revenue decreased 330 basis points to an operating loss percentage of 0.1% during Fiscal 2013. These declines in operating income percentage were primarily attributable to reduced gross margins for our products, due to the competitive pricing dynamics we experienced throughout Fiscal 2013, particularly for our client products. During Fiscal 2013, we observed an industry-wide migration to lower-value client offerings, where we are less competitive. We continue to manage our pricing position within our industry and pursue the development of technology solutions tailored to specific regional needs. Our gross margins include benefits, relating primarily to vendor settlements, of approximately $320 million and $70 million for Fiscal 2013 and Fiscal 2012, respectively.

As of February 1, 2013, we had $15.3 billion of total cash, cash equivalents, and investments and $9.1 billion in total debt. In comparison, as of February 3, 2012, we had $18.2 billion of total cash, cash equivalents, and investments and $9.3 billion in total debt. We generated $3.3 billion in operating cash flows in Fiscal 2013, compared to $5.5 billion during Fiscal 2012. The decrease in operating cash flows for Fiscal 2013 was primarily driven by unfavorable changes in working capital as well as a decrease in net income. During Fiscal 2013, we continued to maintain an efficient cash conversion cycle as well as strong cash and investment positions. We believe that we can generate cash flow from operations in excess of net income over the long term.

Revenue

Fiscal 2013 compared to Fiscal 2012

- Product Revenue — Product revenue decreased 10% during Fiscal 2013, due to declines in revenue from our client products. See "Revenue by Product and Services Categories" for further information regarding product revenue.

- Services Revenue, including software related — During Fiscal 2013, services revenue, including software related, was essentially unchanged. Revenue from all software related support services as well as third-party licenses are included herein. Software related support services for all of our software offerings as well as third party software licenses represented 31% and 32% of services revenue, including software related, for Fiscal 2013 and Fiscal 2012, respectively.

During Fiscal 2013, we experienced a 4% decrease in revenue from third-party software sales, which was offset by a 1% increase in services revenue, excluding software related, as well as software support services revenue from Fiscal 2013 acquisitions. The decline in revenue from third-party software sales was driven by a decrease in unit sales for our client products during Fiscal 2013, compared to Fiscal 2012, which limited the sales volume of our third-party software products. In addition, revenue growth in this area has been impacted by our decision to reduce our participation in lower-value third-party software offerings.

During Fiscal 2013, revenue from outside the U.S. decreased 9% to $28.7 billion and represented 50% of total net revenue, while revenue from the U.S. decreased 7% to $28.2 billion. Revenue from most emerging countries declined during Fiscal 2013, due to the competitive pricing dynamics we experienced. We continue to view these geographical markets, which include the vast majority of the world's population, as a long-term growth opportunity. Accordingly, we continue to pursue development of technology solutions that meet the needs of these markets.

We manage our business on a U.S. dollar basis and factor foreign currency exchange rate movements into our pricing decisions. In addition, we utilize a comprehensive hedging strategy intended to mitigate the impact of foreign currency volatility over time. As a result of our hedging programs, the impact of foreign currency movements was not material to our total net revenue for Fiscal 2013.

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Fiscal 2012 compared to Fiscal 2011

- Product Revenue — Product revenue for Fiscal 2012 was essentially unchanged from the prior year. Product revenue increases in our Large Enterprise and SMB segments were offset by decreases from our Public and Consumer segments. The decline in product revenue from our Public segment was driven by weakened demand, while the decrease in our Consumer segment revenue was largely attributable to lower average selling prices, partially offset by an increase in sales of higher-value products.

- Services Revenue, including software related — Services revenue, including software related, increased 6% during Fiscal 2012. Revenue from all software related support services as well as third-party licenses are included herein. These software related services represented 32% and 33% of services revenue, including software related, for Fiscal 2012 and Fiscal 2011, respectively. Our services revenue performance during Fiscal 2012 was attributable to an 8% increase in services revenue, excluding software related, and an increase of 1% in software related revenue. All of our Commercial segments experienced increases in services revenue, while Consumer services revenue decreased.

At a regional level, revenue from outside the U.S. increased 7% to $31.7 billion and represented 51% of total net revenue, while revenue from the U.S. decreased 5% to $30.4 billion. Revenue from most emerging countries increased during Fiscal 2012, compared to Fiscal 2011.

Gross Margin

Fiscal 2013 compared to Fiscal 2012

- Products — During Fiscal 2013, product gross margins decreased in absolute dollars and in gross margin percentage. Product gross margin percentage decreased from 20.5% for Fiscal 2012 to 18.0% for Fiscal 2013. The decline in product gross margins was primarily driven by the competitive pricing dynamics we experienced in Fiscal 2013, particularly for our client products. Our gross margins include benefits, relating primarily to settlements from certain vendors regarding their past pricing practices, of approximately $320 million and $70 million for Fiscal 2013 and Fiscal 2012, respectively. Vendor settlements are allocated to our segments based on the relative amount of affected vendor products sold by each segment.
- Services, including software related — During Fiscal 2013, our services gross margin increased in absolute dollars and in gross margin percentage. Our gross margin percentage for services, including software related, increased from 29.5% for Fiscal 2012 to 33.8% for Fiscal 2013. Gross margin percentages improved for all of our services and software-related offerings, which include support and deployment services, infrastructure, cloud, and security services, applications and business process services, as well as certain software-related services.

During Fiscal 2013, our total gross margin in dollars decreased 12% to $12.2 billion on a GAAP basis and 10% to $12.7 billion on a non-GAAP basis. Gross margin on a GAAP basis for Fiscal 2013 and Fiscal 2012 includes the effects of amortization of intangible assets and of severance and facility action costs and acquisition-related charges. As set forth in the reconciliation under "Non-GAAP Financial Measures" below, these items are excluded from the calculation of non-GAAP gross margin for Fiscal 2013 and Fiscal 2012. In aggregate, these charges increased 47% to $522 million during Fiscal 2013, compared to Fiscal 2012. Amortization of intangible assets included in GAAP gross margin increased 49% to $455 million during Fiscal 2013. This increase was primarily attributable to an increase in purchased intangible assets over the period. In addition, severance and facility action costs and acquisition-related charges included in gross margin increased 37% to $67 million during Fiscal 2013, driven by an increase in severance and facility action costs.

Fiscal 2012 compared to Fiscal 2011

- Products — During Fiscal 2012, product gross margins increased in absolute dollars and in gross margin percentage. Product gross margin percentage increased to 20.5% for Fiscal 2012 from 15.9% for Fiscal 2011. A shift away from lower-value business, better supply chain execution, a disciplined pricing strategy in a competitive environment, and favorable component cost conditions contributed to the increase in product gross margin percentage for all of our segments.

- Services, including software related — During Fiscal 2012, our services gross margin increased in absolute dollars compared to the prior fiscal year, although our gross margin percentage decreased. The decrease in gross margin percentage for services, including software related, was primarily driven by declines in gross margin percentages from our support and deployment and infrastructure, cloud, and security services.

Total gross margin in dollars for Fiscal 2012 increased 21% on both a GAAP and non-GAAP basis. Total gross margin on a GAAP basis for Fiscal 2012 was $13.8 billion, compared to $14.2 billion on a non-GAAP basis. Gross margin on a GAAP basis for Fiscal 2012 and Fiscal 2011 includes the effects of amortization of intangible assets and of severance and facility action costs and acquisition-related charges. As set forth in the reconciliation under "Non-GAAP Financial Measures" below, these items are excluded from the calculation of non-GAAP gross margin for Fiscal 2012 and Fiscal 2011. Amortization of intangible assets included in gross margin increased 10% to $305 million for Fiscal 2012. Severance and facility action costs and acquisition-related charges included in gross margin decreased 14% to $49 million during Fiscal 2012. The overall decrease in severance and facility action costs and acquisition-related charges was primarily due to a decrease in charges related to facility closures in Fiscal 2011, which was slightly offset by an increase in acquisition-related charges during Fiscal 2012.

Vendor Rebate Programs

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

The terms and conditions of our vendor rebate programs are largely based on product volumes and are generally not long-term in nature, but instead are typically negotiated either at the beginning of the annual or quarterly period, depending on the program. Because of the fluid nature of these ongoing negotiations, which reflect changes in the competitive environment, the timing and amount of vendor rebates and other discounts we receive under the programs may vary from period to period. We monitor our component costs and seek to address the effects of any changes to terms that might arise under our vendor rebate programs. Our gross margins for Fiscal 2013 and Fiscal 2012 were not materially affected by any changes to the terms of our vendor rebate programs, as the amounts we received under these programs were generally stable relative to our total net cost. We are not aware of any significant programmatic changes to vendor pricing or rebate programs that may impact our results in the near term.

In addition, we have pursued legal action against certain vendors and are currently involved in negotiations with other vendors regarding their past pricing practices. We have negotiated settlements with some of these vendors and may have additional settlements in future quarters.

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Operating Expenses

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

	Fiscal Year Ended							
	February 1, 2013			February 3, 2012			January 28, 2011	
	Dollars	% of Revenue	% Change	Dollars	% of Revenue	% Change	Dollars	% of Revenue
	(in millions, except percentages)							
Operating expenses:								
Selling, general, and administrative	$8,102	14.2 %	(5)%	$8,524	13.7 %	17 %	$7,302	11.9 %
Research, development, and engineering	1,072	1.9 %	25 %	856	1.5 %	30 %	661	1.0 %
Total operating expenses	$9,174	16.1 %	(2)%	$9,380	15.2 %	18 %	$7,963	12.9 %
Other Financial Information								
Non-GAAP operating expenses [(a)]	$8,735	15.3 %	(3)%	$9,030	14.5 %	19 %	$7,582	12.3 %

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

Fiscal 2013 compared to Fiscal 2012

- Selling, General, and Administrative — During Fiscal 2013, selling, general, and administrative ("SG&A") expenses decreased 5%, while SG&A expenses as a percentage of revenue increased. During Fiscal 2013, compensation-related expenses, excluding severance and facility action costs, decreased 6%, driven by a decline in performance-based compensation, which was partially offset by an increase in sales compensation during Fiscal 2013 as we increased the number of enterprise solutions sales specialists. Additionally, other SG&A expenses, excluding amortization of intangible assets and acquisition-related costs, decreased 6% during Fiscal 2013, primarily as a result of a decline in discretionary spending. This decline in discretionary spending was partially offset by higher operating expenses associated with our Fiscal 2013 acquisitions, which generally have higher operating expense structures. We are actively managing our expenses in certain areas to focus spending on strategic investments.

- Research, Development, and Engineering — During Fiscal 2013, research, development, and engineering expenses were 1.9% of net revenue, compared to 1.5% during the prior fiscal year. This increase reflects our focus on shifting our investments to research and development activities that support our initiatives to grow our enterprise solutions, services, and software offerings.

Total operating expenses for Fiscal 2013 decreased 2% to $9.2 billion on a GAAP basis and 3% to $8.7 billion on a non-GAAP basis. Operating expenses on a GAAP basis for Fiscal 2013 and Fiscal 2012 include the effects of amortization of intangible assets and of severance and facility action costs and acquisition-related charges. In aggregate, these charges increased 25% to $439 million during Fiscal 2013, compared to Fiscal 2012. Amortization of intangibles increased 84% to $158 million during Fiscal 2013, due to our Fiscal 2012 and Fiscal 2013 acquisitions. In addition, severance and facility action costs and acquisition-related charges included in GAAP operating expenses increased 6% to $281 million during Fiscal 2013, driven by an increase in severance-related expenses. As set forth in the reconciliation under “Non-GAAP Financial Measures” below, amortization of intangibles and severance and facility action costs and acquisition-related costs are excluded from the calculation of non-GAAP operating expenses for Fiscal 2013 and Fiscal 2012.

Fiscal 2012 compared to Fiscal 2011

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Selling, General, and Administrative — During Fiscal 2012, SG&A expenses increased $1.2 billion. The overall higher level of SG&A expenses was largely attributable to the continued execution of our strategic transformation. Our strategic initiatives have entailed organic investments in enterprise solution selling capabilities and other infrastructure spending as well as investments in enterprise and services-focused acquisitions, which generally have higher expense structures. During Fiscal 2012, compensation-related expenses, excluding severance-related expenses, increased approximately $967 million due to a 6% increase in headcount, which was driven by our organic and inorganic investments. We also experienced an increase of $175 million in advertising, promotional, and other selling-related expenses. In addition, higher

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SG&A expenses for Fiscal 2012 reflected increases in acquisition-related charges, which were offset in part by decreases in severance and facility action costs, discussed below.

- Research, Development, and Engineering — During Fiscal 2012, research, development, and engineering expenses were 1.5% of net revenue, compared to 1.0% during the prior fiscal year. This increase reflects our focus on shifting our investments to research and development activities that support our initiatives to grow our enterprise solutions and services offerings.

Total operating expenses for Fiscal 2012 increased 18% to $9.4 billion on a GAAP basis and 19% to $9.0 billion on a non-GAAP basis over Fiscal 2011. Operating expenses on a GAAP basis for Fiscal 2012 and Fiscal 2011 includes the effects of severance and facility action costs and acquisition-related charges and amortization of intangible assets. These charges increased 45% to $350 million during Fiscal 2012 compared to Fiscal 2011, primarily due to an increase in acquisition-related charges as a result of the larger acquisitions that were completed in Fiscal 2012 compared to Fiscal 2011. For Fiscal 2011, operating expenses on a GAAP basis also included $140 million in settlements we incurred related to an SEC investigation and a securities litigation matter. As set forth in the reconciliation under “Non-GAAP Financial Measures” below, non-GAAP operating expenses for Fiscal 2012 and for Fiscal 2011 exclude the effects of severance and facility action costs and acquisition related charges, amortization of intangible assets, and, for Fiscal 2011, the settlements referred to above.

Operating and Net Income

Fiscal 2013 compared to Fiscal 2012

- Operating Income — During Fiscal 2013, operating income decreased in dollars and as a percentage of revenue. During Fiscal 2013, operating income dollars and percentage declined 32% and 180 basis points, respectively, on a GAAP basis, and 23% and 130 basis points, respectively, on a non-GAAP basis. The decreases in non-GAAP operating income percentage were driven by declines in product gross margin percentage, the effects of which were partially offset by improved gross margin percentages for services, including software related. In addition, operating expenses as a percentage of revenue increased during Fiscal 2013, largely due to an increase in research, development, and engineering expenses. Operating income on a GAAP basis also includes increases in amortization of intangible assets, severance and facility action costs, and acquisition-related costs.
- Net Income — During Fiscal 2013, net income decreased 32% to $2.4 billion on a GAAP basis and 24% to $3.0 billion on a non-GAAP basis. Net income on a GAAP and non-GAAP basis was impacted by decreases in operating income, though the effects on net income on a GAAP basis were partially offset by a lower effective tax rate. See “Income and Other Taxes” below for a discussion of our effective tax rates.

Fiscal 2012 compared to Fiscal 2011

- Operating Income — During Fiscal 2012, operating income increased 29% to $4.4 billion on a GAAP basis and 24% to $5.1 billion on a non-GAAP basis over Fiscal 2011. The increases were primarily attributable to improved gross margins, the effect of which was partially offset by an increase in selling and marketing costs.
- Net Income — During Fiscal 2012, net income increased 33% to $3.5 billion on a GAAP basis and 27% to $4.0 billion on a non-GAAP basis over Fiscal 2011. Net income was positively impacted by increases in operating income and a lower effective tax rate, offset in part by unfavorable changes in interest and other, net. Interest and other, net for Fiscal 2011 was favorably impacted by our receipt of a $72 million merger termination fee. This fee is excluded from net income on a non-GAAP basis. See “Income and Other Taxes” and “Interest and Other, net” below for a discussion of our effective tax rates and interest and other, net.

Non-GAAP Financial Measures

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

The non-GAAP financial measures presented in this report include non-GAAP gross margin, non-GAAP operating expenses, non-GAAP operating income, non-GAAP net income, and non-GAAP earnings per share. These non-GAAP financial measures, as defined by us, represent the comparable GAAP measures adjusted to exclude severance and facility action costs and acquisition-related charges, amortization of purchased intangible assets related to acquisitions, the settlements related to an SEC investigation and a securities litigation matter, which were both incurred during the first quarter of Fiscal 2011, and a merger termination fee, which we received during the third quarter of Fiscal 2011, and for non-GAAP net income and non-GAAP earnings per share, the aggregate adjustment for income taxes related to the exclusion of such items. We provide more detail below regarding each of these items and our reasons for excluding them. In future fiscal periods, we may exclude such items and may incur income and expenses similar to these excluded items. Accordingly, the exclusion of these items and other similar items in our non-GAAP presentation should not be interpreted as implying that these items are non-recurring, infrequent, or unusual.

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

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

- Severance and Facility Actions and Acquisition-related Costs — Severance and facility action costs are primarily related to facilities charges, including accelerated depreciation and severance and benefits for employees terminated pursuant to cost synergies related to strategic acquisitions and actions taken as part of a comprehensive review of costs. Acquisition-related charges are expensed as incurred and consist primarily of retention payments, integration costs, and other costs. Retention payments include stock-based compensation and cash incentives awarded to employees, which are recognized over the vesting period. Integration costs primarily include IT costs related to the integration of IT systems and processes, costs related to the integration of employees, consulting expenses, and for acquisitions made prior to Fiscal 2013, costs related to full-time employees who are working on the integration. Severance and facility actions and acquisition-related charges are inconsistent in amount and are significantly impacted by the timing and nature of these events. Therefore, although we may incur these types of expenses in the future, we believe that eliminating these charges for purposes of calculating the non-GAAP financial measures facilitates a more meaningful evaluation of our current operating performance and comparisons to our past operating performance.

- Amortization of Intangible Assets — Amortization of purchased intangible assets consists primarily of amortization of customer relationships, acquired technology, non-compete covenants, and trade names purchased in connection with business acquisitions. We incur charges relating to the amortization of these intangibles, and those charges are included in

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our Consolidated Financial Statements. Amortization charges for our purchased intangible assets are significantly impacted by the timing and magnitude of our acquisitions. Accordingly, these charges may vary in amount from period to period. We exclude these charges for purposes of calculating the non-GAAP financial measures to facilitate a more meaningful evaluation of our current operating performance and comparisons to our past operating performance.

- Other Fees and Settlements — We also adjust our GAAP results for certain fees and settlements. During the third quarter of Fiscal 2011, we received a $72 million fee for termination of a merger agreement with us. During the first quarter of Fiscal 2011, we recorded a $100 million settlement amount for the SEC investigation into certain of our accounting and financial matters, which was initiated in 2005, and incurred $40 million for a securities litigation class action lawsuit that was filed against us during Fiscal 2007. We are excluding these fees and settlements for the purpose of calculating the non-GAAP financial measures because we believe these fees and settlements, while not unusual, are outside our ordinary course of business and do not contribute to a meaningful evaluation of our current operating performance or comparisons to our past operating performance.

- Aggregate Adjustment for Income Taxes —The aggregate adjustment for income taxes is the estimated combined income tax effect for the items described above. The tax effects are determined based on the jurisdictions where the items were incurred.

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

	Fiscal Year Ended				
	February 1, 2013	% Change	February 3, 2012	% Change	January 28, 2011
	(in millions, except percentages)				
GAAP gross margin	$12,186	(12)%	$13,811	21%	$11,396
Non-GAAP adjustments:					
Amortization of intangibles	455		305		278
Severance and facility actions and acquisition-related costs	67		49		57
Non-GAAP gross margin	$12,708	(10)%	$14,165	21%	$11,731
GAAP operating expenses	$9,174	(2)%	$9,380	18%	$7,963
Non-GAAP adjustments:					
Amortization of intangibles	(158)		(86)		(71)
Severance and facility actions and acquisition-related costs	(281)		(264)		(170)
Other fees and settlements	—		—		(140)
Non-GAAP operating expenses	$8,735	(3)%	$9,030	19%	$7,582
GAAP operating income	$3,012	(32)%	$4,431	29%	$3,433
Non-GAAP adjustments:					
Amortization of intangibles	613		391		349
Severance and facility actions and acquisition-related costs	348		313		227
Other fees and settlements	—		—		140
Non-GAAP operating income	$3,973	(23)%	$5,135	24%	$4,149
GAAP net income	$2,372	(32)%	$3,492	33%	$2,635
Non-GAAP adjustments:					
Amortization of intangibles	613		391		349
Severance and facility actions and acquisition-related costs	348		313		227
Other fees and settlements	—		—		68
Aggregate adjustment for income taxes	(316)		(244)		(173)
Non-GAAP net income	$3,017	(24)%	$3,952	27%	$3,106
GAAP earnings per share - diluted	$1.35	(28)%	$1.88	39%	$1.35
Non-GAAP adjustments per share - diluted	0.37		0.25		0.24
Non-GAAP earnings per share - diluted	$1.72	(19)%	$2.13	34%	$1.59

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	Fiscal Year Ended February 1, 2013		February 3, 2012		January 28, 2011	
Percentage of Total Net Revenue						
GAAP gross margin	21.4	%	22.3	%	18.5	%
Non-GAAP adjustments	0.9	%	0.5	%	0.6	%
Non-GAAP gross margin	22.3	%	22.8	%	19.1	%
GAAP operating expenses	16.1	%	15.2	%	12.9	%
Non-GAAP adjustments	(0.8	)%	(0.7	)%	(0.6	)%
Non-GAAP operating expenses	15.3	%	14.5	%	12.3	%
GAAP operating income	5.3	%	7.1	%	5.6	%
Non-GAAP adjustments	1.7	%	1.2	%	1.1	%
Non-GAAP operating income	7.0	%	8.3	%	6.7	%
GAAP net income	4.2	%	5.6	%	4.3	%
Non-GAAP adjustments	1.1	%	0.8	%	0.8	%
Non-GAAP net income	5.3	%	6.4	%	5.1	%

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Segment Discussion

Through Fiscal 2013, we managed our business in four global customer-centric operating segments: Large Enterprise, Public, Small and Medium Business, and Consumer. Large Enterprise includes sales of IT infrastructure and service solutions to large global and national corporate customers. Public includes sales to educational institutions, governments, health care organizations, and law enforcement agencies, among others. SMB includes sales of complete IT solutions to small and medium-sized businesses. Consumer includes sales to individual consumers, home office customers, and retailers around the world.

In the first quarter of Fiscal 2013, we made certain segment realignments in order to conform to the way we managed segment performance through Fiscal 2013. These realignments affected all of our operating segments, but primarily consisted of the transfer of small office business customers from our SMB operating segment to our Consumer segment. We have recast prior period amounts to provide visibility and comparability. None of these changes impacts our previously reported consolidated net revenue, gross margin, operating income, net income, or earnings per share.

On January 10, 2013, we announced our intention to replace our current segment reporting structure with the following four product and services business units in the first quarter of Fiscal 2014:

- End-User Computing Group (“EUC”)
- Enterprise Solutions Group (“ESG”)
- Dell Services
- Dell Software Group

EUC will include notebooks, desktop PCs, thin client products, tablets, third-party software, and client-related peripherals. ESG will include servers, networking, storage, converged infrastructure offerings, and ESG-related peripherals. Dell Services will include a broad range of IT and business services, including support and deployment services, infrastructure, cloud, and security services, and applications and business process services. The Dell Software Group will include systems management, security, and information management. See Note 15 of the Notes to the Consolidated Financial Statements included in “Part II — Item 8— Financial Statements and Supplementary Data” for additional information and a reconciliation of segment revenue and operating income to consolidated revenue and operating income.

Broad based, long-term incentive expenses, amortization of purchased intangible assets costs, severance and facility actions and acquisition-related charges, and charges related to our settlement of an SEC investigation as well as a securities litigation class action lawsuit that were incurred during Fiscal 2011, are not allocated to the reporting segments as management does not believe that these items are reflective of the underlying operating performance of the reporting segments. These costs totaled $1.3 billion for Fiscal 2013 and $1.1 billion for each of Fiscal 2012 and Fiscal 2011.

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

	Fiscal Year Ended							
	February 1, 2013			February 3, 2012			January 28, 2011	
	Dollars	% of Revenue[a]	% Change	Dollars	% of Revenue[a]	% Change	Dollars	% of Revenue[a]
	(in millions, except percentages)							
Large Enterprise								
Net revenue	$17,781	31 %	(5)%	$18,786	30 %	4 %	$18,111	29 %
Operating income	$1,553	8.7 %	(18)%	$1,889	10.1 %	27 %	$1,490	8.2 %
Public								
Net revenue	$14,828	26 %	(8)%	$16,070	26 %	(2)%	$16,377	27 %
Operating income	$1,238	8.3 %	(22)%	$1,584	9.9 %	10 %	$1,446	8.8 %
Small and Medium Business								
Net revenue	$13,413	24 %	(1)%	$13,547	22 %	7 %	$12,608	21 %
Operating income	$1,505	11.2 %	(5)%	$1,581	11.7 %	14 %	$1,383	11.0 %
Consumer								
Net revenue	$10,918	19 %	(20)%	$13,668	22 %	(5)%	$14,398	23 %
Operating income	$(11)	(0.1)%	(103)%	$433	3.2 %	141 %	$180	1.3 %

[a] Operating income percentage of revenue is stated in relation to the respective segment.

Fiscal 2013 compared to Fiscal 2012

All of our segments experienced declines in revenue during Fiscal 2013, led by a decline in revenue from our Consumer segment. These declines were due to weak global macro-economic conditions, competitive pricing dynamics, and increased competition from alternative mobile devices. These dynamics particularly impacted demand for our client products.

- Large Enterprise — During Fiscal 2013, Large Enterprise experienced a 5% decrease in net revenue. Servers and networking revenue and revenue from services increased 13% and 3%, respectively, while storage revenue declined 19%. Revenue from mobility products, desktop PCs, and third-party software and peripherals decreased 16%, 11%, and 14%, respectively. Large Enterprise revenue decreased across all regions during Fiscal 2013.

During Fiscal 2013, Large Enterprise's operating income as a percentage of revenue decreased 140 basis points to 8.7%. This decrease was primarily attributable to declines in gross margin percentages for our products, which were partially offset by improvements in our services gross margin percentages. In addition, operating expenses as a percentage of revenue increased during Fiscal 2013, compared to Fiscal 2012, driven by an increase in sales and marketing expenses as a well as an increase in research, development, and engineering expenses as a percentage of revenue.

- Public — During Fiscal 2013, Public experienced an 8% decrease in revenue, which was partially attributable to continued budgetary constraints on public spending. During Fiscal 2013, revenue from all product lines decreased, except for revenue from servers and networking, which increased 4%. Storage revenue and revenue from services decreased 12% and 5%, respectively, while revenue from mobility products, desktop PCs, and third-party software and peripherals decreased 14%, 10%, and 8%, respectively. Public revenue decreased across all regions during Fiscal 2013, compared to Fiscal 2012, led by a decline in revenue from the U.S.

During Fiscal 2013, Public's operating income as a percentage of net revenue decreased 160 basis points to 8.3%. This decrease was primarily attributable to declines in gross margin percentages for our products, which were partially offset by improvements in our services gross margin percentages. In addition, operating expenses as a percentage of revenue increased during Fiscal 2013, compared to Fiscal 2012, driven by an increase in sales and marketing expenses as a well as an increase in research, development, and engineering expenses as a percentage of revenue.

- Small and Medium Business — During Fiscal 2013, SMB experienced a slight decrease in revenue, which was primarily attributable to a decrease in revenue from our client offerings and revenue from third-party software and peripherals. The effect of the decrease in these offerings and products was largely offset by an increase in revenue from our enterprise

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solutions and services. Servers and networking revenue and revenue from services increased 15% and 22%, respectively, while storage revenue decreased 7%. Revenue from mobility products, desktop PCs, and third-party software and peripherals decreased 16%, 4%, and 3%, respectively. At a regional level, during Fiscal 2013, SMB experienced an increase in revenue from the Asia-Pacific and Japan region ("APJ"), while revenue from EMEA and the Americas decreased.

During Fiscal 2013, SMB's operating income as a percentage of net revenue decreased 50 basis points to 11.2%. This decline was attributable to declines in gross margin percentage for our products and an increase in operating expenses as a percentage of revenue, which was driven by an increase in research, development, and engineering expenses. The effects of these factors were largely offset by an increase in gross margin percentage attributable to our services, including software related.

- Consumer — During Fiscal 2013, Consumer experienced a 20% decrease in revenue. Revenue from all product and services categories decreased during Fiscal 2013. The overall decrease in Consumer revenue was primarily attributable to a 25% decline in mobility product revenue, driven by a 22% decrease in units sold and a 4% decrease in average selling prices. Desktop PC revenue decreased 8% due to a 4% decline in units sold and a 3% decline in average selling prices. During Fiscal 2013, revenue from third-party software and peripherals and Consumer services revenue decreased 13% and 14%, respectively, due to a decrease in client units sold. Consumer experienced declines in revenue across all regions during Fiscal 2013, compared to Fiscal 2012, led by a decline in revenue from the U.S. During Fiscal 2013, compared to Fiscal 2012, Consumer revenue from most emerging countries decreased.

During Fiscal 2013, Consumer's operating income as a percentage of net revenue decreased 330 basis points to an operating loss percentage of 0.1%. These declines in operating income percentage were primarily attributable to declines in gross margin percentage for our products.

Fiscal 2012 compared to Fiscal 2011

- Large Enterprise — During Fiscal 2012, Large Enterprise experienced a 4% increase in revenue that was driven by increases in revenue across all product lines, except for storage revenue, which declined 30%. The decline in storage revenue was primarily due to a decrease in the sale of third-party storage products as we shifted to sales of Dell-owned storage solutions. Revenue from services and servers and networking increased 13% and 9%, respectively, while mobility revenue increased 6% and revenue from desktop PCs and revenue from third-party software and peripherals each increased 1%. During Fiscal 2012, Large Enterprise's revenue from outside the U.S increased, while revenue from the U.S. decreased slightly.

During Fiscal 2012, Large Enterprise's operating income as a percentage of revenue increased 190 basis points to 10.1%. The increase was primarily attributable to improvements in gross margin for our products, partially offset by an increase in operating expenses as a percentage of net revenue, resulting primarily from increased selling and marketing costs.

- Public — During Fiscal 2012, Public experienced a 2% decrease in revenue which was primarily driven by a weakened demand environment. Revenue from desktop PCs, storage products, and mobility products decreased 7%, 16%, and 3%, respectively. Revenue from services, servers and networking, and third-party software and peripherals increased 4%, 3%, and 1%, respectively. The decline in Public's revenue was primarily attributable to revenue decreases in the U.S. and Western Europe, largely because of budgetary constraints on public spending, the effects of which were partially offset by revenue growth in APJ.

During Fiscal 2012, Public's operating income as a percentage of net revenue increased 110 basis points to 9.9%. The increase was primarily attributable to improvements in gross margin for our products, partially offset by an increase in operating expenses as a percentage of net revenue, which was primarily due to increased selling and marketing costs.

- Small and Medium Business — During Fiscal 2012, SMB experienced a 7% increase in revenue that was attributable to an increase in revenue from enterprise solutions and services. Revenue from servers and networking, storage, and services increased 17%, 11%, and 24%, respectively. Revenue from third-party software and peripherals, mobility products, and desktop PCs increased 7%, 3%, and 1%, respectively. SMB experienced revenue growth across all regions.

During Fiscal 2012, SMB's operating income as a percentage of net revenue increased 70 basis points to 11.7%. The increase was primarily attributable to improvements in gross margin for our products, partially offset by an increase in operating expenses as a percentage of net revenue, resulting principally from increased selling and marketing costs.

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- Consumer — During Fiscal 2012, Consumer experienced a 5% decrease in revenue. Revenue from all product and services categories decreased during Fiscal 2012. The overall decrease in consumer revenue was driven by an 11% decline in revenue from desktop PCs and a 16% decline in revenue from third-party software and peripherals. During Fiscal 2012, desktop PC unit sales declined 5% and the average selling price of desktop PCs decreased 7%. The decline in third-party software and peripherals revenue was due to the removal of lower-value products from our portfolio of product offerings. Mobility revenue decreased 1% due to a decrease in average selling prices of 4%, which was largely offset by a 3% increase in units sold, driven by an overall increase in demand for our higher-value product lines. Revenue from Consumer services decreased 8%, largely due to decreased sales from our U.S. business as well as lower attach rates on our product sales. Revenue from the U.S. decreased 18%, while revenue from outside of the U.S. increased 6%. Revenue from emerging countries increased during Fiscal 2012 compared to the prior fiscal year.

For Fiscal 2012, Consumer's operating income percentage as a percentage of net revenue increased 190 basis points, to 3.2%. The increase in operating income percentage was largely attributable to an increase in our product gross margin percentage due to a more favorable component cost environment. In addition, during Fiscal 2012, we sold more units of higher-value client products, as compared to the prior year. Furthermore, we experienced an increase in profitability from our customer financing arrangements, which benefited from improvements in consumer credit loss performance on our owned and purchased portfolios. The positive effects of these factors were partially offset by a slight increase in operating expenses as a percentage of revenue due to increased selling and marketing costs.

Revenue by Product and Services Categories

We design, develop, manufacture, market, sell, and support a wide range of products. Our enterprise products include servers, networking, and storage products. Client products include mobility and desktop PC products. Our services include a broad range of configurable IT and business services, including support and deployment services, infrastructure, cloud, and security services, and applications and business process services. We also offer third-party software and peripherals products.

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

	Fiscal Year Ended							
	February 1, 2013			February 3, 2012			January 28, 2011	
	Dollars	% of Revenue	% Change	Dollars	% of Revenue	% Change	Dollars	% of Revenue
	(in millions, except percentages)							
Net revenue:								
Enterprise solutions and services:								
Enterprise solutions:								
Servers and networking	$9,294	16 %	11 %	$8,336	13 %	10 %	$7,609	12 %
Storage	1,699	3 %	(13)%	1,943	3 %	(15)%	2,295	4 %
Services	8,396	15 %	1 %	8,322	13 %	8 %	7,673	12 %
Third-party software and peripherals	9,257	16 %	(9)%	10,222	17 %	— %	10,261	17 %
Client:								
Mobility	15,303	27 %	(20)%	19,104	31 %	1 %	18,971	31 %
Desktop PCs	12,991	23 %	(8)%	14,144	23 %	(4)%	14,685	24 %
Total net revenue	$56,940	100 %	(8)%	$62,071	100 %	1 %	$61,494	100 %

Fiscal 2013 compared to Fiscal 2012

- Enterprise Solutions and Services

•Enterprise Solutions:

• Servers and Networking — During Fiscal 2013, servers and networking revenue increased 11%. This increase was primarily attributable to our Fiscal 2012 and Fiscal 2013 acquisitions of Force10 Networks, Inc., SonicWALL, and Quest Software, which are included in servers and networking revenue from their respective acquisition dates. In addition, revenue from our servers increased, as we experienced an increase in demand for our data center solutions during Fiscal 2013.

- Storage — During Fiscal 2013, storage revenue decreased 13%. These declines were primarily attributable to an anticipated decline in sales of third-party storage products, which were partially offset by revenue from the sale of Dell-branded storage products. Revenue from Dell-branded storage products increased 4% during Fiscal 2013.

- Services — Services revenue increased 1% during Fiscal 2013. This slight increase in services revenue for Fiscal 2013 was driven by a 5% increase in support and deployment services, which consist of support and extended warranty services, enterprise installation, and configuration services. Revenue from support and deployment services continues to benefit from the increased unit sales we experienced in Fiscal 2011 and Fiscal 2012. Although we experienced declines in unit sales from our client products during Fiscal 2013, we are enhancing our focus on value-added attached services. The increase in revenue from support and deployment services was largely offset by an 11% decrease in applications and business process services, which was driven by select contract expirations, as we continue to migrate to contracts that provide higher-value opportunities.

During Fiscal 2013, deferred services revenue increased 3%. In addition, during the same period, services backlog increased 3% to $8.7 billion as of February 1, 2013, compared to $8.4 billion as of February 3, 2012. We provide information regarding services backlog because we believe it provides useful trend information regarding changes in the size of our services business over time. Estimated services backlog, which is primarily related to our outsourcing services business, represents signed contracts that are initially $2 million or more in total expected revenue with an initial contract term of at least 18 months. The terms of the signed services contracts included in our calculation of services backlog are subject to change and are affected by terminations, changes in the scope of services, and changes to other factors that could impact the value of the contract. For these and other reasons, it is not reasonably practicable to estimate the portions for these backlog amounts that will ultimately be recognized as revenue when performance on the contracts is completed.

We continue to view services as a strategic growth opportunity and will continue to invest in our offerings and resources to focus on increasing our solutions sales.

- Third-party software and peripherals — In connection with the sale of our product offerings, we sell a multitude of peripherals, including monitors, printers, projectors, other client and enterprise peripherals, as well as third-party software products. During Fiscal 2013, revenue from third-party software and peripherals decreased 9% when compared to Fiscal 2012. This business was impacted in Fiscal 2013 by a decrease in unit sales of our client products, which limits the sales volume of third-party software and peripherals. In addition, this business has been impacted as we have continued to reduce our participation in non-strategic areas, such as certain third-party software offerings.

- Client

Mobility — Revenue from mobility products (which include notebooks, mobile workstations, and tablets) decreased 20% during Fiscal 2013. This decline was driven by an 18% decrease in mobility unit sales during the period. In addition, average selling prices decreased 2% during Fiscal 2013. During Fiscal 2013, Commercial mobility revenue decreased 15%, while Consumer mobility revenue decreased 25%. During Fiscal 2013, we experienced a difficult pricing environment for our client products. In particular, demand for our client products in emerging countries was impacted as we saw a migration to lower-value offerings, where we are less competitive. Our results were also impacted as customers shifted some of their demand to alternative computing devices, particularly in our Consumer segment.

Desktop PCs — During Fiscal 2013, revenue from desktop PCs (which include desktop computer systems and fixed workstations) decreased 8%. This decline was driven by a 6% decrease in average selling prices during Fiscal 2013 and a 2% decrease in unit sales over the same period.

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Fiscal 2012 compared to Fiscal 2011

- Enterprise Solutions and Services

- Enterprise Solutions:

- Servers and Networking — The increase in our servers and networking revenue for Fiscal 2012 as compared to Fiscal 2011 was primarily driven by increases in revenue from our PowerEdge lines of servers as well as our virtualized servers and data center solutions. During Fiscal 2012, we saw an overall increase in demand and selling prices.

- Storage — During Fiscal 2012, storage revenue decreased 15%. The decrease in storage revenue was primarily attributable to an anticipated decline in sales of third-party storage products, which was partially offset by revenue from sales of Dell-owned storage products, such as our Compellent products. During Fiscal 2012, sales of Dell-owned storage products increased 21% to 82% of our total storage revenue compared to 57% in the prior year. We believe that Dell-owned storage offerings, which can be sold with service solutions, will generate higher margins in the long-term. Our acquisition of Compellent during the first quarter of Fiscal 2012 expanded our enterprise and data center storage offerings.

- Services — During Fiscal 2012, services revenue increased 8% to $8.3 billion. The increase was driven by an increase in support and deployment services revenue as well as increases in infrastructure, cloud, and security services as well as applications and business process services. The increase in infrastructure, cloud, and security services as well as applications and business process services was partially driven by our acquisitions. During Fiscal 2012, deferred services revenue and services backlog each increased 11%.

- Third-party software and peripherals — In connection with the sale of our product offerings, we sell a multitude of peripherals, including monitors, printers, projectors, other client and enterprise peripherals, as well as third-party software products. During Fiscal 2012, revenue from third-party software and peripherals was essentially unchanged when compared to the prior year. Revenue growth in this business has been impacted as we continue to reduce our participation in non-strategic areas.

- Client

Mobility — Revenue from mobility products increased 1% during Fiscal 2012. This increase was primarily attributable to a 3% increase in notebook units sold, largely offset by a 3% decline in average selling price. In Fiscal 2012, we experienced declines in revenue from our lower priced consumer notebooks, which were largely offset by increases in revenue from our higher-value lines of notebooks. During Fiscal 2012, Commercial mobility revenue increased 2%, when compared to Fiscal 2011, while Consumer mobility revenue decreased 1%.

Desktop PCs — During Fiscal 2012, revenue from desktop PCs decreased 4% as the average selling price as well as unit sales for our desktop PCs each decreased 2%, when compared to Fiscal 2011.

Stock-Based Compensation

Dell is currently issuing stock grants under the Dell Inc. 2012 Long-Term Incentive Plan (the "2012 Incentive Plan"), which was approved by shareholders at the annual meeting on July 13, 2012. Previous plans, including the Amended and Restated 2002 Long-Term Incentive Plan, have been terminated, except for administration of awards previously granted under those plans that remain outstanding. The 2012 Incentive Plan and all previous plans are collectively referred to as "Dell's Incentive Plans."

Equity awards issued under the 2012 Incentive Plan can include stock options, stock appreciation rights, restricted stock units, unrestricted stock, performance based restricted stock units, or other equity awards. Stock-based compensation expense totaled $347 million for Fiscal 2013, compared to $362 million and $332 million for Fiscal 2012 and Fiscal 2011, respectively. For further discussion on stock-based compensation, see Note 14 of the Notes to the Consolidated Financial Statements included in "Part II — Item 8 — Financial Statements and Supplementary Data."

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Interest and Other, net

The following table provides a detailed presentation of interest and other, net for each of the past three fiscal years:

	Fiscal Year Ended		
	February 1, 2013	February 3, 2012	January 28, 2011
	(in millions)		
Interest and other, net:			
Investment income, primarily interest	$100	$81	$47
Gains on investments, net	35	8	6
Interest expense	(270)	(279)	(199)
Foreign exchange	(18)	5	4
Other	(18)	(6)	59
Interest and other, net	$(171)	$(191)	$(83)

Fiscal 2013 compared to Fiscal 2012

During Fiscal 2013, changes in interest and other, net were favorable by $20 million, when compared to Fiscal 2012. These changes were primarily due to an increase in investment income and net gains from the sale of investments, partially offset by foreign exchange fluctuations during Fiscal 2013. The changes in foreign exchange for Fiscal 2013 were primarily due to higher costs associated with our hedging program and revaluations of certain un-hedged foreign currencies.

Fiscal 2012 compared to Fiscal 2011

Our investment income increased in Fiscal 2012 over the prior fiscal year primarily due to higher average cash and investment balances as well as a shift to longer-duration investments, which have higher investment yields. The increase in interest expense for Fiscal 2012 compared to Fiscal 2011 was due to higher debt levels, which increased to $9.3 billion as of February 3, 2012, from $6.0 billion as of January 28, 2011. The decrease in other income for Fiscal 2012 was primarily due to a $72 million merger termination fee that we received during Fiscal 2011.

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Income and Other Taxes

Our effective tax rate was 16.5%, 17.6%, and 21.3% for Fiscal 2013, Fiscal 2012, and Fiscal 2011, respectively. The decrease in our effective income tax rate for Fiscal 2013 as compared to Fiscal 2012, was primarily due to vendor settlements we received in Fiscal 2013, which are taxed at lower rates than the U.S. tax rate, partially offset by an increase in the proportion of taxable income attributable to higher tax jurisdictions. The decrease in our effective income tax rate for Fiscal 2012 as compared to Fiscal 2011, was primarily due to an increase in the proportion of taxable income attributable to lower rate jurisdictions.

Our effective tax rate can fluctuate depending on the geographic distribution of our world-wide earnings, as our foreign earnings are generally taxed at lower rates than in the U.S. In certain jurisdictions, our tax rate is significantly less than the applicable statutory rate as a result of tax holidays. The majority of our foreign income that is subject to these tax holidays and lower tax rates is attributable to Singapore, China, and Malaysia. Our significant tax holidays expire in whole or in part during Fiscal 2016 through Fiscal 2022. The differences between our effective tax rate and the U.S. federal statutory rate of 35% principally resulted from the geographical distribution of taxable income discussed above and permanent differences between the book and tax treatment of certain items. We continue to assess our business model and its impact in various taxing jurisdictions.

For a further discussion regarding tax matters, including the status of income tax audits, see Note 11 of the Notes to the Consolidated Financial Statements included in “Part II — Item 8 — Financial Statements and Supplementary Data.”

ACCOUNTS RECEIVABLE

We sell products and services directly to customers and through a variety of sales channels, including retail distribution. As of February 1, 2013, our accounts receivable, net was $6.6 billion, which represented a 2% increase from our balance as of February 3, 2012. This increase in accounts receivable, net was primarily due to a shift in the mix of receivables to customers with longer payment terms. We maintain an allowance for doubtful accounts to cover receivables that may be deemed uncollectible. The allowance for losses is based on a provision for accounts that are collectively evaluated based on historical bad debt experience as well as specific identifiable customer accounts that are deemed at risk. As of February 1, 2013 and February 3, 2012, the allowance for doubtful accounts was $72 million and $63 million, respectively. Based on our assessment, we believe we are adequately reserved for expected credit losses. We monitor the aging of our accounts receivable and continue to take actions to reduce our exposure to credit losses.

DELL FINANCIAL SERVICES AND FINANCING RECEIVABLES

Dell Financial Services ("DFS") offers a wide range of financial services, including originating, collecting, and servicing customer receivables primarily related to the purchase of Dell products. In some cases, we originate financing activities for our commercial customers related to the purchase of third-party technology products that complement our portfolio of products and services. New financing originations, which represent the amounts of financing provided by DFS to customers for equipment and related software and services, including third-party originations, were approximately $3.5 billion, $3.8 billion, and $4.0 billion for Fiscal 2013, Fiscal 2012, and Fiscal 2011, respectively. The decline in originations during the period was driven by a decrease in unit sales for our client products, particularly in our Consumer segment. At February 1, 2013 and February 3, 2012, our net financing receivables balances were $4.6 billion and $4.7 billion, respectively.

To support the financing needs of our customers internationally, we have aligned with a select number of third-party financial services companies. During Fiscal 2012, we entered into a definitive agreement to acquire CIT Vendor Finance's Dell-related financing assets portfolio and sales and servicing functions in Europe for approximately $500 million. Subject to customary closing, regulatory, and other conditions, we expect to complete this transaction in Fiscal 2014. In connection with this transaction, we have filed an application for a bank license with The Central Bank of Ireland to facilitate ongoing financing offerings.

We have securitization programs to fund revolving loans and fixed-term leases and loans through consolidated special purpose entities ("SPEs"), which we account for as secured borrowings. We transfer certain U.S. customer financing receivables to these SPEs, whose purpose is to facilitate the funding of customer receivables through financing arrangements with multi-seller conduits that issue asset-backed debt securities in the capital markets. We transferred \$2.0 billion, \$2.3 billion, and \$1.9 billion to these SPEs during Fiscal 2013, Fiscal 2012, and Fiscal 2011, respectively. Our risk of loss related to these securitized receivables is limited to the amount of our over-collateralization in the transferred pool of receivables. The structured financing debt related to all of our secured borrowing securitization programs was \$1.3 billion as of both February 1, 2013 and

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February 3, 2012. In addition, the carrying amount of the corresponding financing receivables was $1.5 billion as of both February 1, 2013 and February 3, 2012.

We maintain an allowance to cover expected financing receivable credit losses and evaluate credit loss expectations based on our total portfolio. For Fiscal 2013, Fiscal 2012, and Fiscal 2011, the principal charge-off rate for our total portfolio was 4.1%, 4.6%, and 7.5%, respectively. The charge-off rate for Fiscal 2011 is annualized for a portfolio of receivables that consisted of revolving Dell U.S. customer account balances that was purchased during the third quarter of Fiscal 2011. The credit quality mix of our financing receivables has improved in recent years due to our underwriting actions and as the mix of high quality commercial accounts in our portfolio has increased. The allowance for losses is determined based on various factors, including historical and anticipated experience, past due receivables, receivable type, and customer risk profile. At February 1, 2013 and February 3, 2012, the allowance for financing receivable losses was $192 million and $202 million, respectively. In general, the loss rates on our financing receivables for Fiscal 2013 improved over the prior year. We expect the loss rates in future periods to stabilize, with movements in these rates being primarily driven by seasonality and a continued shift in portfolio composition to lower risk commercial assets. We continue to monitor broader economic indicators and their potential impact on future loss performance. We have an extensive process to manage our exposure to customer credit risk, including active management of credit lines and our collection activities. We also sell selected fixed-term financing receivables to unrelated third parties on a periodic basis, primarily to manage certain concentrations of customer credit exposure. Based on our assessment of the customer financing receivables, we believe that we are adequately reserved.

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

OFF-BALANCE SHEET ARRANGEMENTS

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

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LIQUIDITY, CAPITAL COMMITMENTS, AND CONTRACTUAL CASH OBLIGATIONS

Current Market Conditions

We regularly monitor economic conditions and associated impacts on the financial markets and our business. We consistently evaluate the financial health of our supplier base, carefully manage customer credit, diversify counterparty risk, and monitor the concentration risk of our cash and cash equivalents balances globally. We routinely monitor our financial exposure to both sovereign and non-sovereign borrowers and counterparties.

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

We use derivative instruments to hedge certain foreign currency exposures. We use forward contracts and purchased options designated as cash flow hedges to protect against the foreign currency exchange rate risks inherent in our forecasted transactions denominated in currencies other than the U.S. dollar. In addition, we primarily use forward contracts and may use purchased options to hedge monetary assets and liabilities denominated in a foreign currency. See Note 6 of the Notes to the Consolidated Financial Statements under "Part II — Item 8 — Financial Statements and Supplementary Data" for more information about our use of derivative instruments.

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

Liquidity

Cash generated from operations is our primary source of operating liquidity. In general, we seek to deploy our capital in a systematically prioritized manner, focusing first on requirements for operations, then on growth investments, and finally on returns of cash to stockholders. The merger agreement for our proposed merger transaction, described in the introduction to this management's discussion and analysis, places certain limitations on our use of cash, including our application of cash to repurchase shares, declare quarterly dividends in excess of $0.08 per share, and pursue significant business acquisitions.

Our strategy is to deploy capital, whether internally generated cash or debt, depending on the adequacy and availability of that source of capital and whether it can be accessed in a cost effective manner. While cash generated from operations is our primary source of operating liquidity, we use a variety of capital sources to fund the growth in our financing receivables, fund our needs for less predictable strategic initiatives, and return capital to stockholders. The merger agreement for our proposed merger transaction places certain limitations on the amount of debt we can assume. In addition, subsequent to the announcement of the proposed merger, our credit rating was downgraded to below investment grade by one of the major credit rating agencies, which significantly limits our ability to access the commercial paper market. If the proposed merger is not consummated, our credit rating may continue to be impacted, which will prolong our more limited access to the capital markets. We believe that internally generated cash flows, which consist of operating cash flows, are sufficient to support our day-to-day business operations, both domestically and internationally, for at least the next 12 months.

At February 1, 2013, we had $15.3 billion of total cash, cash equivalents, and investments, substantially all of which was held outside of the U.S. We access our foreign cash balances in a tax efficient manner when appropriate. The following table summarizes our cash and cash equivalents, investments, and available borrowings as of February 1, 2013, and February 3, 2012:

	February 1, 2013	February 3, 2012

	(in millions)	
Cash, cash equivalents, and investments:		
Cash and cash equivalents	$12,569	$13,852
Investments	2,773	4,370
Cash, cash equivalents, and investments	15,342	18,222
Unsecured revolving credit facilities [a]	3,000	3,000
Total cash, cash equivalents, investments, and available borrowings	$18,342	$21,222

[a] Under the merger agreement, we may access up to $2.0 billion outstanding at any time under our unsecured revolving credit facilities.

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We have senior unsecured revolving credit facilities primarily to support our commercial paper program. No amounts were outstanding under our revolving credit facilities as of February 1, 2013 or February 3, 2012.

Of our $15.3 billion of cash, cash equivalents, and investments as of February 1, 2013, $12.6 billion is classified as cash and cash equivalents. Our cash equivalents primarily consist of money market funds and certificates of deposit. The remaining $2.8 billion of investments is primarily invested in fixed income securities of varying maturities at the date of acquisition. The fair value of our portfolio can be affected by interest rate movements, credit risk, and liquidity risks. The objective of our investment policy and strategy is to manage our total cash and investments balances to preserve principal and maintain liquidity while maximizing the return on the investment portfolio through the full investment of available funds. We diversify our investment portfolio by investing in multiple types of investment-grade securities and through the use of third-party investment managers.

A significant portion of our income is earned in non-U.S. jurisdictions. Under current law, earnings available to be repatriated to the U.S. would be subject to U.S. federal income tax, less applicable foreign tax credits. We have provided for the U.S. federal tax liability on these amounts for financial statement purposes, except for foreign earnings that are considered permanently reinvested outside of the U.S. We utilize a variety of tax planning and financing strategies with the objective of having our worldwide cash available in the locations where it is needed.

The following table summarizes our outstanding debt as of February 1, 2013, and February 3, 2012:

	February 1, 2013	February 3, 2012
	(in millions)	
Outstanding Debt		
Senior notes and debentures	$5,988	$6,391
Structured financing debt	1,288	1,360
Commercial paper	1,807	1,500
Other	2	3
Total debt	$9,085	$9,254

During Fiscal 2013, total debt decreased $169 million due to a repayment of $400 million in maturing senior notes, as well as a decrease in structured financing debt, partially offset by a net issuance of commercial paper. In connection with the announcement of our proposed merger transaction, our credit rating was downgraded to below investment grade by one of the major credit rating agencies. This credit downgrade significantly limits our ability to access the commercial paper market. As of February 3, 2013, we had $1.8 billion in outstanding commercial paper as well as $1.1 billion in senior notes that will mature during the next twelve months. We have sufficient cash balances and access to our revolving credit facilities to repay our outstanding commercial paper as well as these maturing senior notes.

We also issue structured financing-related debt to fund our financing receivables as discussed under “Financing Receivables” above. As of February 1, 2013, we had $1.3 billion in outstanding structured financing securitization debt. Our securitization programs are structured to operate near their debt capacity and are generally effective for 12 months. Our programs will be subject to renewal during the first half of Fiscal 2014, and we expect to renew these programs on their current terms. We balance the use of our securitization programs with working capital and other sources of liquidity to fund growth in our financing receivables. See Note 4 of the Notes to the Consolidated Financial Statements under “Part II — Item 8 — Financial Statements and Supplementary Data” for further discussion of our structured financing debt. Under the merger agreement, we may not incur debt under these programs of more than $1.5 billion outstanding at any time.

We intend to maintain appropriate debt levels, subject to the limitations under the merger agreement, based upon cash flow expectations, the overall cost of capital, cash requirements for operations, and discretionary spending, including spending for permitted business acquisitions and permitted dividend payments. See Note 5 of the Notes to the Consolidated Financial Statements under “Part II — Item 8 — Financial Statements and Supplementary Data” for further discussion of our debt.

Our management actively monitors the efficiency of our balance sheet under various macro-economic and competitive scenarios. These scenarios quantify risks to the financial statements and provide a basis for actions necessary to ensure adequate liquidity, both domestically and internationally, to support our strategic initiatives, return capital to stockholders, and fund other corporate needs.

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

	Fiscal Year Ended		
	February 1, 2013	February 3, 2012	January 28, 2011
		(in millions)	
Net change in cash from:			
Operating activities	$3,283	$5,527	$3,969
Investing activities	(3,316)	(6,166)	(1,165)
Financing activities	(1,210)	577	477
Effect of exchange rate changes on cash and cash equivalents	(40)	1	(3)
Change in cash and cash equivalents	$(1,283)	$(61)	$3,278

Operating Activities — Operating cash flows for Fiscal 2013 decreased $2.2 billion compared to Fiscal 2012. This decrease in operating cash flows was primarily driven by unfavorable changes in working capital as well as a decrease in net income. For Fiscal 2012 compared to Fiscal 2011, operating cash flows increased $1.6 billion. This increase in operating cash flows was primarily attributable to an increase in net income as well as favorable changes in working capital.

Investing Activities — Investing activities primarily consist of the sales and purchases of investments, net of maturities, capital expenditures for property, plant, and equipment, and cash used to fund strategic acquisitions. Cash used in investing activities during Fiscal 2013 was $3.3 billion, compared to $6.2 billion and $1.2 billion during Fiscal 2012 and Fiscal 2011, respectively. The overall decrease in cash used in investing activities during Fiscal 2013 compared to Fiscal 2012 was driven by an increase in cash from the sale and maturity of investments as well as a decrease in investment purchases during the period, the effects of which were largely offset by higher spending on business acquisitions. For Fiscal 2012 compared to Fiscal 2011, the increase in cash used in investing activities was primarily attributable to the net increase in cash used to purchase investments as we shifted funds to investments with original maturities of greater than 90 days and higher spending on business acquisitions.

Financing Activities — Financing activities primarily consist of proceeds and repayments from borrowings, the repurchase of our common stock, and cash used to fund dividend payments. Cash used in financing activities for Fiscal 2013 was $1.2 billion, compared to cash provided by financing activities of $0.6 billion and $0.5 billion for Fiscal 2012 and Fiscal 2011, respectively. The decrease in cash provided by financing activities for Fiscal 2013 was attributable to a decrease in net proceeds from debt, which was largely offset by a decrease in share repurchases during the Fiscal 2013, compared to Fiscal 2012. During Fiscal 2012, net proceeds from the issuance of long-term debt were $1.5 billion. In comparison, during Fiscal 2013, we repaid $400 million in maturing senior notes. During Fiscal 2012, we repurchased approximately 178 million shares of common stock for $2.7 billion, compared to 46 million shares of common stock for $0.7 billion during Fiscal 2013. In addition, during Fiscal 2013, we announced a dividend program, under which we paid $278 million in cash dividends to our stockholders.

For Fiscal 2012 compared to Fiscal 2011, the slight year-over-year increase in cash provided by financing activities was primarily due to the issuance of $1.5 billion in commercial paper, compared to a net repayment of $0.5 billion of commercial paper in Fiscal 2011. This increase was offset by an additional $1.9 billion in share repurchases during Fiscal 2012 compared to Fiscal 2011.

Key Performance Metrics —

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

	Fiscal Quarter Ended		
	February 1, 2013	February 3, 2012	January 28, 2011
Days of sales outstanding[a]	46	42	40
Days of supply in inventory[b]	11	11	9
Days in accounts payable[c]	(93)	(89)	(82)

Cash conversion cycle	(36)	(36)	(33)

(a) Days of sales outstanding ("DSO") calculates the average collection period of our receivables. DSO is based on the ending net trade receivables and the most recent quarterly revenue for each period. DSO also includes the effect of product costs related to customer shipments not yet recognized as revenue that are classified in other current assets. DSO is calculated by adding accounts receivable, net of allowance for doubtful accounts, and customer shipments in transit and dividing that sum by average net revenue per day for the current quarter (90 days for Fiscal 2013 and Fiscal 2011; 97 days for Fiscal 2012). At February 1, 2013, February 3, 2012 and January 28, 2011, DSO and days of customer shipments not yet recognized were 42 and 4 days, 39 and 3 days, and 37 and 3 days, respectively.

(b) Days of supply in inventory ("DSI") measures the average number of days from procurement to sale of our products. DSI is based on ending inventory and most recent quarterly cost of sales for each period. DSI is calculated by dividing inventory by average cost of goods sold per day for the current quarter (90 days for Fiscal 2013 and Fiscal 2011; 97 days for Fiscal 2012).

(c) Days in accounts payable ("DPO") calculates the average number of days our payables remain outstanding before payment. DPO is based on ending accounts payable and most recent quarterly cost of sales for each period. DPO is calculated by dividing accounts payable by average cost of goods sold per day for the current quarter (90 days for Fiscal 2013 and Fiscal 2011; 97 days for Fiscal 2012).

Our cash conversion cycle for the fiscal quarter ended February 1, 2013 was essentially unchanged compared to the fiscal quarter ended February 2, 2012. The four day improvement in DPO was driven by the timing of payments as well as the conversion of payment terms for certain suppliers in the fourth quarter of Fiscal 2013. This improvement in DPO was offset by a four day increase in DSO, which was attributable to a shift in the mix of receivables towards customers with longer payment terms. DSI for the fiscal quarter ended February 1, 2013 was essentially unchanged compared to the fiscal quarter ended February 2, 2012. As we execute our strategic initiatives, certain components of our cash conversion cycle may be impacted. However, we expect our business model will continue to allow us to maintain an efficient cash conversion cycle, which compares favorably with that of others in our industry.

Our cash conversion cycle improved three days for the fiscal quarter ended February 3, 2012, from the fiscal quarter ended January 28, 2011, driven by a seven day improvement in DPO, which was largely attributable to the timing of payments to vendors at the end of the period as compared to the prior year due to an additional week of operations in Fiscal 2012. This improvement in DPO was partially offset by a two day increase in DSO and a two day increase in DSI. The increase in DSO from January 28, 2011 was due to a shift in the mix of receivables towards customers with longer payment terms. The increase in DSI from January 28, 2011 was primarily driven by strategic purchases of inventory.

We defer the cost of revenue associated with customer shipments not yet recognized as revenue until these shipments are delivered. These deferred costs are included in our reported DSO because we believe this reporting results in a more accurate presentation of our DSO and cash conversion cycle. These deferred costs are recorded in other current assets in our Consolidated Statements of Financial Position and totaled $665 million at February 1, 2013, $482 million at February 3, 2012, and $541 million at January 28, 2011.

Capital Commitments

Share Repurchase Program — We have a share repurchase program that authorizes us to purchase shares of our common stock through a systematic program of open market purchases 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 to offset share-based compensation arrangements. We did not repurchase any shares of our common stock during the second half of Fiscal 2013. As of February 1, 2013, $5.3 billion remained authorized for future share repurchases. The merger agreement prohibits us from engaging in additional share repurchases.

Dividend Program — On June 12, 2012, we announced that our Board of Directors adopted a dividend policy under which we paid quarterly dividends of $0.08 per share during the third and fourth quarters of Fiscal 2013. The cash dividend policy and the declaration and payment of each quarterly cash dividend will be subject to the Board's continuing determination that the policy and the declaration of dividends thereunder are in the best interest of our stockholders and are in compliance with applicable law. The Board of Directors retains the power to modify, suspend, or cancel our dividend policy in any manner and at any time that it may deem necessary or appropriate in the future.

Under the merger agreement, we may not pay dividends with a quarterly rate greater than the rate of $0.08 per share authorized under our current dividend policy.

Capital Expenditures — During Fiscal 2013 and Fiscal 2012, we spent $513 million and $675 million, respectively, on property, plant, and equipment primarily in connection with our global expansion efforts and infrastructure investments made to support future growth. Product demand, product mix, and the increased use of contract manufacturers, as well as ongoing investments in operating and information technology infrastructure, influence the level and prioritization of our capital expenditures. Aggregate capital expenditures for Fiscal 2014, which will be primarily related to infrastructure investments and strategic initiatives, are currently expected to total approximately $500 million. These expenditures will be primarily funded from our cash flows from operating activities.

Purchase Obligations — 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 to suppliers authorizations to purchase based on our projected demand and manufacturing needs. See "Liquidity, Capital Commitments, and Contractual Cash Obligations — Contractual Cash Obligations" for more information about our purchase commitments.

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Contractual Cash Obligations

The following table summarizes our contractual cash obligations at February 1, 2013:

		Payments Due by Period			
	Total	Fiscal 2014	Fiscal 2015-2016	Fiscal 2017-2018	Thereafter
	(in millions)				
Contractual cash obligations:					
Principal payments on long-term debt	$6,772	$1,617	$2,255	$400	$2,500
Operating leases	613	137	238	139	99
Purchase obligations	515	399	115	1	—
Interest	2,172	242	372	297	1,261
Uncertain tax positions[a]	—	—	—	—	—
Contractual cash obligations	$10,072	$2,395	$2,980	$837	$3,860

(a) We have approximately $2.9 billion in additional liabilities associated with uncertain tax positions that are not expected to be liquidated in Fiscal 2014. We are unable to reliably estimate the expected payment dates for these additional non-current liabilities.

Principal Payments on Long-Term Debt — Our expected principal cash payments related to long term debt are exclusive of hedge accounting adjustments or discounts and premiums. We have outstanding long-term unsecured notes with varying maturities. For additional information, see Note 5 of the Notes to the Consolidated Financial Statements under “Part II — Item 8 — Financial Statements and Supplementary Data."

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.

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 canceled 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 to 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.

Our purchase obligations decreased from $2.9 billion at February 3, 2012 to $515 million at February 1, 2013. This decrease was primarily attributable to the fulfillment of commitments to purchase hard disk drives following disruption of the supply chain as a result of severe flooding in Thailand during the third quarter of Fiscal 2012.

Interest — See Note 5 of the Notes to the Consolidated Financial Statements included in “Part II — Item 8 — Financial Statements and Supplementary Data” for further discussion of our debt and related interest expense.

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Risk Factors Affecting Our Business and Prospects

There are numerous significant risks that affect our business, operating results, financial condition, and prospects. Many of these risks are beyond our control. These risks include those relating to:

- potential effects of any failure of our proposed merger to close;
- intense competition;
- our reliance on vendors for products and components, including reliance on several single-source or limited-source suppliers;
- our ability to achieve favorable pricing from our vendors;
- adverse global economic conditions and instability in financial markets;
- our ability to manage effectively the change involved in implementing our strategic initiatives;
- successful implementation of our acquisition strategy;
- our cost efficiency measures;
- our ability to manage solutions, product, and services transitions in an effective manner;
- our ability to deliver products and services of consistent quality;
- our ability to generate substantial non-U.S. net revenue;
- our product, customer, and geographic sales mix, or seasonal sales trends;
- the performance of our sales channel participants;
- access to the capital markets by us and some of our customers;
- weak economic conditions and additional regulation affecting our financial services activities;
- counterparty default;
- customer terminations of, or pricing changes in, services contracts, or our failure to perform as we anticipate at the time we enter into services contracts;
- loss of government contracts;
- our ability to develop, obtain or protect licenses to intellectual property developed by us or by others on commercially reasonable and competitive terms;
- infrastructure disruptions;
- cyber attacks or other data security breaches;
- our ability to hedge effectively our exposure to fluctuations in foreign currency exchange rates and interest rates;
- expiration of tax holidays or favorable tax rate structures, or unfavorable outcomes in tax audits and other tax compliance matters;
- impairment of our portfolio investments;
- unfavorable results of legal proceedings;
- our ability to attract, retain, and motivate key personnel;
- our ability to maintain strong and effective internal controls;
- our compliance with current and changing environmental and safety laws or other regulatory laws; and
- the effect of armed hostilities, terrorism, natural disasters, and public health issues.

For a discussion of these risk factors affecting our business, operating results, financial conditions, and prospects, see "Part I — Item 1A — Risk Factors."

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Critical Accounting Policies

We prepare our financial statements in conformity with GAAP. The preparation of financial statements in accordance with GAAP requires certain estimates, assumptions, and judgments to be made that may affect our Consolidated Statements of Financial Position and Consolidated Statements of Income. Accounting policies that have a significant impact on our Consolidated Financial Statements are described in Note 1 of the Notes to the Consolidated Financial Statements included in "Part II — Item 8 — Financial Statements and Supplementary Data." The accounting estimates and assumptions discussed in this section are those that we consider to be the most critical. We consider an accounting policy to be critical if the nature of the estimate or assumption is subject to a material level of judgment and if changes in those estimates or assumptions are reasonably likely to materially impact our Consolidated Financial Statements. We have discussed the development, selection, and disclosure of our critical accounting policies with the Audit Committee of our Board of Directors.

Revenue Recognition and Related Allowances — We enter into contracts to sell our products and services, and frequently enter into sales arrangements with customers that contain multiple elements or deliverables, such as hardware, services, software, and peripherals. We use general revenue recognition accounting guidance for hardware, software bundled with hardware that is essential to the functionality of the hardware, peripherals, and certain services. We recognize revenue for these products when it is realized or realizable and earned. Revenue is considered realized and earned when persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; our fee is fixed and determinable; and collection of the resulting receivable is reasonably assured. Judgments and estimates are necessary to ensure compliance with GAAP. These judgments include the allocation of the proceeds received from an arrangement to the multiple elements, and the appropriate timing of revenue recognition.

Revenue from sales of third-party software and extended warranties for third-party products, for which we do not meet the criteria for gross revenue recognition, is recognized on a net basis. All other revenue is recognized on a gross basis.

Services revenue and cost of services revenue captions on the Consolidated Statements of Income include services revenue, third-party software revenue, and support services related to Dell-owned software offerings.

Most of our products and services qualify as separate units of accounting. We allocate revenue to all deliverables based on their relative selling prices. GAAP requires the following hierarchy to be used to determine the selling price for allocating revenue to deliverables; (1) vendor-specific objective evidence ("VSOE"); (2) third-party evidence of selling price ("TPE"); or (3) best estimate of the selling price ("ESP"). In instances where we cannot establish VSOE, we establish TPE by evaluating largely similar and interchangeable competitor products or services in standalone sales to similarly situated customers.

We record reductions to revenue for estimated customer sales returns, rebates, and certain other customer incentive programs. These reductions to revenue are made based upon reasonable and reliable estimates that are determined by historical experience, contractual terms, and current conditions. The primary factors affecting our accrual for estimated customer returns include estimated return rates as well as the number of units shipped that have a right of return that has not expired as of the balance sheet date. If returns cannot be reliably estimated, revenue is not recognized until a reliable estimate can be made or the return right lapses. Each quarter, we reevaluate our estimates to assess the adequacy of our recorded accruals and allowance for doubtful accounts, and adjust the amounts as necessary.

We sell our products directly to customers as well as through other distribution channels, including retailers, distributors, and resellers. Sales through our distribution channels are primarily made under agreements allowing for limited rights of return, price protection, rebates, and marketing development funds. We have generally limited return rights through contractual caps or we have an established selling history for these arrangements. Therefore, there is sufficient data to establish reasonable and reliable estimates of returns for the majority of these sales. To the extent price protection or return rights are not limited and a reliable estimate cannot be made, all of the revenue and related cost are deferred until the product has been sold to the end-user or the rights expire. We record estimated reductions to revenue or an expense for distribution channel programs at the later of the offer or the time revenue is recognized.

We recognize revenue in accordance with industry-specific software accounting guidance for all software and post-contract support ("PCS") that are not essential to the functionality of the hardware. Accounting for software that is essential to the functionality of the hardware is accounted for as specified above. We have not established VSOE for third-party software offerings. For the majority of Dell-owned software offerings, we have established VSOE to support a separation of the software license and PCS elements. VSOE of the PCS element is determined by reference to the prices customers pay for support when it is sold separately. In instances where VSOE is established, we recognize revenue from the sale of software licenses at the time of initial sale, assuming all of the above criteria have been met, and revenue from the PCS element over the maintenance period. When we have not established VSOE to support a separation of the software license and PCS elements, the revenue and related costs are generally recognized over the term of the agreement.

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 on a straight-line basis over the term of the contract or ratably as services are completed.

Business Combinations and Intangible Assets Including Goodwill — We account for business combinations using the acquisition method of accounting, and accordingly, the assets and liabilities of the acquired business are recorded at their fair values at the date of acquisition. The excess of the purchase price over the estimated fair value is recorded as goodwill. Any changes in the estimated fair values of the net assets recorded for acquisitions prior to the finalization of more detailed analysis, but not to exceed one year from the date of acquisition, will change the amount of the purchase price allocable to goodwill. Any subsequent changes to any purchase price allocations that are material to our consolidated financial results will be adjusted retroactively. All acquisition costs are expensed as incurred and in-process research and development costs are recorded at fair value as an indefinite-lived intangible asset and assessed for impairment thereafter until completion, at which point the asset is amortized over its expected useful life. Separately recognized transactions associated with business combinations are generally expensed subsequent to the acquisition date. The application of business combination and impairment accounting requires the use of significant estimates and assumptions.

The results of operations of acquired businesses are included in our Consolidated Financial Statements from the acquisition date.

Goodwill and indefinite-lived intangible assets are tested for impairment on an annual basis in the second fiscal quarter, or sooner if an indicator of impairment occurs. To determine whether goodwill is impaired, we first assess certain qualitative factors. Based on this assessment, if it is determined more likely than not that the fair value of a reporting unit is less than its carrying amount, we perform the quantitative analysis of the goodwill impairment test. We determine the fair values of each of our reportable business units using a discounted cash flow methodology and then compare the fair values to the carrying values of each reportable business unit. We concluded that there was no impairment to goodwill or any triggering events during Fiscal 2013. On January 10, 2013, we announced our intention to replace our current segment reporting structure with the following product and services business units in the first quarter of Fiscal 2014: End User Computing, the Enterprise Solutions Group, Dell Services, and the Dell Software Group. Accordingly, in the first quarter of Fiscal 2014, we will reassign goodwill to reporting units based on the new reporting structure using a relative fair value approach. We do not expect to incur any impairment charges related to goodwill as a result of this process.

Standard Warranty Liabilities — 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 liability for standard warranties is included in accrued and other current and other non-current liabilities on the Consolidated Statements of Financial Position. The specific warranty terms and conditions vary depending upon the product sold and the 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 16 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 are subject to income tax in the U.S. and numerous foreign jurisdictions. Significant judgments are required in determining the consolidated provision for 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. We provide related valuation allowances for deferred tax assets, where appropriate. Significant judgment is required in determining any valuation allowance against deferred tax assets. In assessing the need for a valuation allowance, we consider all available evidence for each jurisdiction, including past operating results, estimates of future taxable income, and the feasibility of ongoing tax planning strategies. In the event we determine all or part of the net deferred tax assets are not realizable in the future, we will make an adjustment to the valuation allowance that would be charged to earnings in the period such determination is made.

Significant judgment is also required in evaluating our uncertain tax positions. While we believe our tax return positions are sustainable, we recognize tax benefits from uncertain tax positions in the financial statements only when it is more likely than not that the positions will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits and a consideration of the relevant taxing authority's administrative practices and precedents. To

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the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest and penalties. We believe we have provided adequate reserves for all uncertain tax positions.
Loss Contingencies — We are subject to the possibility of various losses arising in the ordinary course of business. We consider the likelihood of loss or impairment of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss, in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted and whether new accruals are required. Third parties have in the past asserted, and may in the future assert, claims or initiate litigation related to exclusive patent, copyright, and other intellectual property rights to technologies and related standards that are relevant to us. If any infringement or other intellectual property claim made against us by any third party is successful, or if we fail to develop non-infringing technology or license the proprietary rights on commercially reasonable terms and conditions, our business, operating results, and financial condition could be materially and adversely affected.
Inventories — We state our inventory at the lower of cost or market. We record a write-down for inventories of components and products, including third-party products held for resale, which have become obsolete or are in excess of anticipated demand or net realizable value. We perform a detailed review of inventory each fiscal quarter that considers multiple factors, including demand forecasts, product life cycle status, product development plans, current sales levels, and component cost trends. The industries in which we compete are subject to demand changes. If future demand or market conditions for our products are less favorable than forecasted or if unforeseen technological changes negatively impact the utility of component inventory, we may be required to record additional write-downs, which would adversely affect our gross margin.

New Accounting Pronouncements

Intangibles- Goodwill and Other — In September 2011, the FASB issued new guidance that simplified how entities test goodwill for impairment. After assessment of certain qualitative factors, if it is determined to be more likely than not that the fair value of a reporting unit is less than its carrying amount, entities must perform the quantitative analysis of the goodwill impairment test. Otherwise, the quantitative test becomes optional. Dell adopted this new guidance in the first quarter of Fiscal 2013. Goodwill is tested for impairment on an annual basis in the second fiscal quarter, or sooner if an indicator of impairment occurs. The adoption of this guidance did not impact Dell's Consolidated Financial Statements. See Note 8 of the Notes to the Consolidated Financial Statements included in “Part II - Item 8 - Financial Statements and Supplementary Data” for more information.

In July 2012, the FASB issued amended guidance that simplifies how entities test indefinite-lived intangible assets other than goodwill for impairment. After assessment of certain qualitative factors, if it is determined to be more likely than not that an indefinite-lived asset is impaired, entities must perform the quantitative impairment test. Otherwise, the quantitative test becomes optional. The amended guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. Dell adopted this new guidance in the third quarter of the Fiscal 2013, and the adoption did not impact Dell's Consolidated Financial Statements.

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ITEM 7A — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT 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 Risk

During Fiscal 2013, the principal foreign currencies in which we transacted business were the Euro, Chinese Renminbi, Japanese Yen, British Pound, Canadian Dollar, and Australian Dollar. Our objective in managing our exposures to foreign currency exchange rate fluctuations is to reduce the impact of adverse fluctuations associated with foreign currency exchange rate changes on our earnings and cash flows. Accordingly, we utilize foreign currency option contracts and forward contracts to hedge our exposure on forecasted transactions and firm commitments for certain currencies. During Fiscal 2013, we hedged our exposures on more than 20 currencies. We monitor our foreign currency exchange exposures to ensure the overall effectiveness of our foreign currency hedge positions. However, there can be no assurance that our foreign currency hedging activities will continue to substantially offset the impact of fluctuations in currency exchange rates on our results of operations and financial position in the future.

Based on our foreign currency hedge instruments outstanding, which include designated and non-designated instruments, as of February 1, 2013 and February 3, 2012, we estimate a maximum potential one-day loss in fair value of approximately $39 million and $34 million, respectively, using a Value-at-Risk (“VAR”) model. By using market implied rates and incorporating volatility and correlation among the currencies of a portfolio, the VAR model simulates 3,000 randomly generated market prices and calculates the difference between the fifth percentile and the average as the Value-at-Risk. The VAR model is a risk estimation tool and is not intended to represent actual losses in fair value that will be incurred. Additionally, as we utilize foreign currency instruments for hedging forecasted and firmly committed transactions, a loss in fair value for those instruments is generally offset by increases in the value of the underlying exposure.

Interest Rate Risk

We also are exposed to interest rate risk related to our debt and investment portfolios and financing receivables. We mitigate the risk related to our structured financing debt through the use of interest rate swaps to hedge the variability in cash flows related to the interest rate payments on such debt. See Note 6 of the Notes to the Consolidated Financial Statements included in “Part II — Item 8 — Financial Statements and Supplementary Data” for more information on our interest rate swaps.

We mitigate the risks related to our investment portfolio by investing primarily in high credit quality securities, limiting the amount that can be invested in any single issuer, and investing in short -to- intermediate-term investments. Based on our investment portfolio and interest rates as of February 1, 2013, a 100 basis point increase in interest rates would have resulted in a decrease of approximately $42 million in the fair value of our investment portfolio, while a 100 basis point decrease in interest rates would have resulted in an increase of approximately $31 million in the fair value of our investments. As of February 3, 2012, a 100 basis point increase in interest rates would have resulted in a decrease of approximately $61 million in the fair value of our investment portfolio, while a 100 basis point decrease in interest rates would have resulted in an increase of approximately $48 million in the fair value of our investment portfolio. The slight decrease in our interest rate sensitivity from February 3, 2012 to February 1, 2013 was due to a shift in the duration of our portfolio to shorter-duration investments.

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ITEM 8 — FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

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

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 1, 2013 and February 3, 2012, and the results of their operations and their cash flows for each of the three years in the period ended February 1, 2013 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 1, 2013, 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 these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide 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.

/s/ PRICEWATERHOUSECOOPERS LLP

Austin, Texas
March 12, 2013

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DELL INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in millions)

	February 1, 2013	February 3, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$12,569	$13,852
Short-term investments	208	966
Accounts receivable, net	6,629	6,476
Short-term financing receivables, net	3,213	3,327
Inventories, net	1,382	1,404
Other current assets	3,967	3,423
Total current assets	27,968	29,448
Property, plant, and equipment, net	2,126	2,124
Long-term investments	2,565	3,404
Long-term financing receivables, net	1,349	1,372
Goodwill	9,304	5,838
Purchased intangible assets, net	3,374	1,857
Other non-current assets	854	490
Total assets	$47,540	$44,533
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$3,843	$2,867
Accounts payable	11,579	11,656
Accrued and other	3,644	3,740
Short-term deferred revenue	4,373	3,738
Total current liabilities	23,439	22,001
Long-term debt	5,242	6,387
Long-term deferred revenue	3,971	3,855
Other non-current liabilities	4,187	3,373
Total liabilities	36,839	35,616
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock and capital in excess of $.01 par value; shares authorized: 7,000; shares issued: 3,413 and 3,390, respectively; shares outstanding: 1,738 and 1,761, respectively	12,554	12,187
Treasury stock at cost: 1,200 and 1,154 shares, respectively	(32,145)	(31,445)
Retained earnings	30,330	28,236
Accumulated other comprehensive loss	(59)	(61)
Total Dell stockholders' equity	10,680	8,917
Noncontrolling interest	21	—
Total stockholders' equity	10,701	8,917
Total liabilities and stockholders' equity	$47,540	$44,533

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

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

	Fiscal Year Ended		
	February 1, 2013	February 3, 2012	January 28, 2011
Net revenue:			
Products	$44,744	$49,906	$50,002
Services, including software related	12,196	12,165	11,492
Total net revenue	56,940	62,071	61,494
Cost of net revenue:			
Products	36,683	39,689	42,068
Services, including software related	8,071	8,571	8,030
Total cost of net revenue	44,754	48,260	50,098
Gross margin	12,186	13,811	11,396
Operating expenses:			
Selling, general, and administrative	8,102	8,524	7,302
Research, development, and engineering	1,072	856	661
Total operating expenses	9,174	9,380	7,963
Operating income	3,012	4,431	3,433
Interest and other, net	(171)	(191)	(83)
Income before income taxes	2,841	4,240	3,350
Income tax provision	469	748	715
Net income	$2,372	$3,492	$2,635
Earnings per share:			
Basic	$1.36	$1.90	$1.36
Diluted	$1.35	$1.88	$1.35
Cash dividends declared per common share	$0.16	$—	$—
Weighted-average shares outstanding:			
Basic	1,745	1,838	1,944
Diluted	1,755	1,853	1,955

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

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DELL INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

	Fiscal Year Ended		
	February 1, 2013	February 3, 2012	January 28, 2011
Net income	$2,372	$3,492	$2,635
Adjustment to consolidate variable interest entities	—	—	(1)
Other comprehensive income, net of tax			
Foreign currency translation adjustments	(33)	(74)	79
Available-for-sale investments			
Change in unrealized gains (losses)	7	42	—
Reclassification adjustment for net (gains) losses included in net income	(13)	(29)	(1)
Net change	(6)	13	(1)
Cash Flow Hedges			
Change in unrealized gains (losses)	(18)	(119)	(254)
Reclassification adjustment for net (gains) losses included in net income	59	190	142
Net change	41	71	(112)
Total other comprehensive income (loss), net of tax benefit (expense) of $(8), $(1) and $2, respectively	2	10	(34)
Comprehensive income, net of tax	$2,374	$3,502	$2,600

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

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

	Fiscal Year Ended		
	February 1, 2013	February 3, 2012	January 28, 2011
Cash flows from operating activities:			
Net income	$2,372	$3,492	$2,635
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,144	936	970
Stock-based compensation expense	347	362	332
Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies	18	(5)	(4)
Deferred income taxes	(428)	19	(45)
Provision for doubtful accounts — including financing receivables	258	234	382
Other	19	21	26
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(150)	(53)	(707)
Financing receivables	(193)	(372)	(709)
Inventories	48	(52)	(248)
Other assets	(334)	(28)	516
Accounts payable	(74)	327	(151)
Deferred revenue	382	701	307
Accrued and other liabilities	(126)	(55)	665
Change in cash from operating activities	3,283	5,527	3,969
Cash flows from investing activities:			
Investments:			
Purchases	(2,615)	(4,656)	(1,360)
Maturities and sales	4,354	1,435	1,358
Capital expenditures	(513)	(675)	(444)
Proceeds from sale of facilities, land, and other assets	135	14	18
Purchase of financing receivables	—	—	(430)
Collections on purchased financing receivables	167	278	69
Acquisitions, net of cash received	(4,844)	(2,562)	(376)
Change in cash from investing activities	(3,316)	(6,166)	(1,165)
Cash flows from financing activities:			
Repurchases of common stock	(724)	(2,717)	(800)
Cash dividends paid	(278)	—	—
Issuance of common stock under employee plans	52	40	12
Issuance (repayment) of commercial paper (maturity 90 days or less), net	(331)	635	(176)
Proceeds from debt	3,311	4,050	3,069
Repayments of debt	(3,248)	(1,435)	(1,630)
Other	8	4	2
Change in cash from financing activities	(1,210)	577	477
Effect of exchange rate changes on cash and cash equivalents	(40)	1	(3)
Change in cash and cash equivalents	(1,283)	(61)	3,278
Cash and cash equivalents at beginning of the period	13,852	13,913	10,635
Cash and cash equivalents at end of the period	$12,569	$13,852	$13,913

Income tax paid	$283	$408	$435
Interest paid	$279	$267	$188

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						
	Issued Shares [(a)]	Amount	Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Dell Shareholder's Equity	Non-Controlling Interest	Total Equity
Balances at January 29, 2010	3,351	$11,472	919	$(27,904)	$22,110	$ (37)	$ 5,641	$ —	$5,641
Net income	—	—	—	—	2,635	—	2,635	—	2,635
Adjustment to consolidate variable interest entities	—	—	—	—	(1)	—	(1)	—	(1)
Change in net unrealized gain or loss on investments, net of taxes	—	—	—	—	—	(1)	(1)	—	(1)
Foreign currency translation adjustments	—	—	—	—	—	79	79	—	79
Change in net unrealized gain or loss on derivative instruments, net of taxes	—	—	—	—	—	(112)	(112)	—	(112)
Total comprehensive income	—	—	—	—	—	—	2,600	—	2,600
Stock issuances under employee plans and other[(b)]	18	7	—	—	—	—	7	—	7
Repurchases of common stock	—	—	57	(800)	—	—	(800)	—	(800)
Stock-based compensation related	—	332	—	—	—	—	332	—	332
Net tax shortfall from employee stock plans	—	(14)	—	—	—	—	(14)	—	(14)
Balances at January 28, 2011	3,369	11,797	976	(28,704)	24,744	(71)	7,766	—	7,766
Net income	—	—	—	—	3,492	—	3,492	—	3,492
Change in net unrealized gain or loss on investments, net of taxes	—	—	—	—	—	13	13	—	13
Foreign currency translation adjustments	—	—	—	—	—	(74)	(74)	—	(74)
Change in net unrealized gain or loss	—	—	—	—	—	71	71	—	71

on derivative instruments, net of taxes									
Total comprehensive income	—	—	—	—	—	—	3,502	—	3,502
Stock issuances under employee plans and other[b]	21	33	—	—	—	—	33	—	33
Repurchases of common stock	—	—	178	(2,741)	—	—	(2,741)	—	(2,741)
Stock-based compensation related	—	365	—	—	—	—	365	—	365
Net tax shortfall from employee stock plans	—	(8)	—	—	—	—	(8)	—	(8)
Balances at February 3, 2012	3,390	12,187	1,154	(31,445)	28,236	(61)	8,917	—	8,917
Net income	—	—	—	—	2,372	—	2,372	—	2,372
Change in net unrealized gain or loss on investments, net of taxes	—	—	—	—	—	(6)	(6)	—	(6)
Foreign currency translation adjustments	—	—	—	—	—	(33)	(33)	—	(33)
Change in net unrealized gain or loss on derivative instruments, net of taxes	—	—	—	—	—	41	41	—	41
Total comprehensive income	—	—	—	—	—	—	2,374	—	2,374
Stock issuances under employee plans and other[b]	23	36	—	—	—	—	36	—	36
Repurchases of common stock	—	—	46	(700)	—	—	(700)	—	(700)
Cash dividends declared	—	—	—	—	(278)	—	(278)	—	(278)
Stock-based compensation related	—	358	—	—	—	—	358	—	358
Net tax shortfall from employee stock plans	—	(27)	—	—	—	—	(27)	—	(27)
Noncontrolling interest assumed through acquisitions	—	—	—	—	—	—	—	21	21
Balances at February 1, 2013	3,413	$12,554	1,200	$(32,145)	$30,330	$ (59)	$ 10,680	$ 21	$10,701

[a] Issued shares include 475 million shares of common stock that were issued to a wholly-owned subsidiary during Fiscal 2007. As these shares are held by a wholly-owned subsidiary, they are not included in outstanding shares in our Consolidated Financial Statements.
[b] Stock issuance under employee plans is net of shares withheld for employee taxes.
The accompanying notes are an integral part of these consolidated financial statements.

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DELL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Description of Business — Dell Inc., a Delaware corporation (both individually and together with its consolidated subsidiaries, “Dell”), offers a broad range of technology solutions, including servers and networking products, storage products, services, software and peripherals, mobility products, and desktop PCs. Dell's business segments are Large Enterprise, Public, Small and Medium Business ("SMB"), and Consumer. References to the Commercial business refer to Large Enterprise, Public, and SMB.

Fiscal Year — Dell's fiscal year is the 52 or 53 week period ending on the Friday nearest January 31. The fiscal year ended February 1, 2013 ("Fiscal 2013") included 52 weeks, while the fiscal years ended February 3, 2012 ("Fiscal 2012") and January 28, 2011 ("Fiscal 2011") included 53 weeks and 52 weeks, respectively.

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

Segment Realignment — In the first quarter of Fiscal 2013, Dell made certain segment realignments in order to conform to the way Dell managed segment performance through Fiscal 2013. These realignments affected all of Dell's operating segments, but primarily consisted of the transfer of small office business customers from its SMB operating segment to its Consumer segment. Dell has recast prior period amounts to provide visibility and comparability. None of these changes impact Dell's previously reported consolidated net revenue, gross margin, operating income, net income, or earnings per share. See Note 15 of the Notes to the Consolidated Financial Statements for additional information on Dell's operating segments.

Reclassifications — Certain prior year amounts have been reclassified from accrued and other liabilities and other non-current liabilities on the Consolidated Statements of Financial Position to short-term deferred revenue and long-term deferred revenue, respectively, to conform to the current year presentation. Prior period amounts on the Consolidated Statements of Cash Flows have also been reclassified to conform to the current period presentation.

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

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

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

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

Financial Statements for additional information.

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