DELL INC
Form 10-Q
December 03, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended November 2, 2012
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)

1-800-289-3355
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 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

As of the close of business on November 26, 2012, 1,737,271,657 shares of common stock, par value $.01 per share, were outstanding.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report includes “forward-looking statements.” 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 “Part I - Item 1A - Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended February 3, 2012. 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
ITEM 1 — FINANCIAL STATEMENTS
DELL INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in millions)

	November 2, 2012 (unaudited)	February 3, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$10,991	$13,852
Short-term investments	281	966
Accounts receivable, net	6,187	6,476
Short-term financing receivables, net	3,151	3,327
Inventories, net	1,364	1,404
Other current assets	3,688	3,423
Total current assets	25,662	29,448
Property, plant, and equipment, net	2,156	2,124
Long-term investments	2,908	3,404
Long-term financing receivables, net	1,354	1,372
Goodwill	9,191	5,838
Purchased intangible assets, net	3,511	1,857
Other non-current assets	664	490
Total assets	$45,446	$44,533
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$3,724	$2,867
Accounts payable	10,556	11,656
Accrued and other	3,504	3,934
Short-term deferred services revenue	4,027	3,544
Total current liabilities	21,811	22,001
Long-term debt	5,310	6,387
Long-term deferred services revenue	3,943	3,836
Other non-current liabilities	4,184	3,392
Total liabilities	35,248	35,616
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock and capital in excess of $.01 par value; shares authorized: 7,000; shares issued: 3,411 and 3,390, respectively; shares outstanding: 1,736 and 1,761, respectively	12,489	12,187
Treasury stock at cost: 1,200 and 1,154 shares, respectively	(32,145)	(31,445)
Retained earnings	29,939	28,236
Accumulated other comprehensive loss	(106)	(61)
Total Dell stockholders' equity	10,177	8,917
Noncontrolling interest	21	—
Total stockholders' equity	10,198	8,917
Total liabilities and stockholders' equity	$45,446	$44,533

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

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

	Three Months Ended		Nine Months Ended	
	November 2, 2012	October 28, 2011	November 2, 2012	October 28, 2011
Net revenue:				
Products	$10,706	$12,312	$33,532	$36,981
Services, including software related	3,015	3,053	9,094	9,059
Total net revenue	13,721	15,365	42,626	46,040
Cost of net revenue:				
Products	8,904	9,797	27,514	29,168
Services, including software related	1,945	2,099	6,035	6,446
Total cost of net revenue	10,849	11,896	33,549	35,614
Gross margin	2,872	3,469	9,077	10,426
Operating expenses:				
Selling, general, and administrative	2,013	2,107	5,998	6,306
Research, development, and engineering	270	220	765	620
Total operating expenses	2,283	2,327	6,763	6,926
Operating income	589	1,142	2,314	3,500
Interest and other, net	(38)	(70)	(133)	(167)
Income before income taxes	551	1,072	2,181	3,333
Income tax provision	76	179	339	605
Net income	$475	$893	$1,842	$2,728
Earnings per share:				
Basic	$0.27	$0.49	$1.05	$1.47
Diluted	$0.27	$0.49	$1.05	$1.46
Cash dividends declared per common share	$0.08	$—	$0.08	$—
Weighted-average shares outstanding:				
Basic	1,735	1,813	1,747	1,860
Diluted	1,742	1,828	1,757	1,874

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

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

	Three Months Ended		Nine Months Ended	
	November 2, 2012	October 28, 2011	November 2, 2012	October 28, 2011
Net income	$475	$893	$1,842	$2,728
Other comprehensive income, net of tax				
Foreign currency translation adjustments	45	(110)	(38)	(45)
Available-for-sale investments				
Change in unrealized gains (losses)	3	2	7	36
Reclassification adjustment for net (gains) losses included in net income	(2)	—	(8)	(1)
Net change	1	2	(1)	35
Cash Flow Hedges				
Change in unrealized gains (losses)	(84)	54	(33)	(182)
Reclassification adjustment for net (gains) losses included in net income	53	9	27	267
Net change	(31)	63	(6)	85
Total other comprehensive income (loss), net of tax benefit (expense) of $(2) and $(3), respectively and $(9) and $(25), respectively	15	(45)	(45)	75
Comprehensive income, net of tax	$490	$848	$1,797	$2,803

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

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

	Nine Months Ended	
	November 2, 2012	October 28, 2011
Cash flows from operating activities:		
Net income	$1,842	$2,728
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	823	687
Stock-based compensation expense	276	261
Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies	15	(19)
Deferred income taxes	(107)	(91)
Provision for doubtful accounts — including financing receivables	185	167
Other	22	46
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	294	(190)
Financing receivables	(51)	(162)
Inventories	67	(46)
Other assets	(334)	223
Accounts payable	(1,104)	(231)
Deferred services revenue	204	540
Accrued and other liabilities	(290)	(223)
Change in cash from operating activities	1,842	3,690
Cash flows from investing activities:		
Investments:		
Purchases	(1,831)	(2,419)
Maturities and sales	3,156	856
Capital expenditures	(383)	(510)
Proceeds from sale of facilities, land, and other assets	81	12
Collections on purchased financing receivables	136	204
Acquisitions of businesses, net of cash received	(4,708)	(2,564)
Change in cash from investing activities	(3,549)	(4,421)
Cash flows from financing activities:		
Repurchases of common stock	(724)	(2,180)
Cash dividends paid	(139)	—
Issuance of common stock under employee plans	49	34
Issuance (repayment) of commercial paper (maturity 90 days or less), net	(292)	—
Proceeds from debt	2,790	3,317
Repayments of debt	(2,822)	(1,055)
Other	8	3
Change in cash from financing activities	(1,130)	119
Effect of exchange rate changes on cash and cash equivalents	(24)	(8)
Change in cash and cash equivalents	(2,861)	(620)
Cash and cash equivalents at beginning of the period	13,852	13,913
Cash and cash equivalents at end of the period	$10,991	$13,293

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

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DELL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 — BASIS OF PRESENTATION
Basis of Presentation
The accompanying Condensed Consolidated Financial Statements of Dell Inc. (individually and together with its consolidated subsidiaries, "Dell") should be read in conjunction with the Consolidated Financial Statements and accompanying Notes filed with the U.S. Securities and Exchange Commission ("SEC") in Dell's Annual Report on Form 10-K for the fiscal year ended February 3, 2012 ("Fiscal 2012"). The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, the accompanying Condensed Consolidated Financial Statements reflect all adjustments of a normal recurring nature considered necessary to fairly state the financial position of Dell and its consolidated subsidiaries at November 2, 2012, the results of its operations and corresponding comprehensive income for the three and nine months ended November 2, 2012, and October 28, 2011, and its cash flows for the nine months ended November 2, 2012, and October 28, 2011.
The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in Dell's Condensed Consolidated Financial Statements and the accompanying Notes. Actual results could differ materially from those estimates. The results of operations and corresponding comprehensive income for the three and nine months ended November 2, 2012, and October 28, 2011, and the cash flows for the nine months ended November 2, 2012, and October 28, 2011, are not necessarily indicative of the results to be expected for the full fiscal year or for any other fiscal period.
Dell's fiscal year is the 52 or 53 week period ending on the Friday nearest January 31. The fiscal year ending February 1, 2013 ("Fiscal 2013"), will be a 52 week period.
In the first quarter of Fiscal 2013, Dell made certain segment realignments in order to conform to the way Dell now internally manages segment performance. 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 14 of the Notes to the Condensed Consolidated Financial Statements for more information.
Recently Issued Accounting Pronouncements
Comprehensive Income — In June 2011, the Financial Accounting Standards Board (the "FASB") issued new guidance on the presentation of comprehensive income. The new guidance eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity and requires an entity to present either one continuous statement of net income and other comprehensive income or two separate, but consecutive statements. This new guidance relates only to presentation. Dell began presenting a separate Condensed Consolidated Statement of Comprehensive Income in the first quarter of the fiscal year ending February 1, 2013.

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 Condensed Consolidated Financial Statements. See Note 9 of the Notes to the Condensed Consolidated Financial Statements 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 Condensed Consolidated Financial Statements.

Disclosures about Offsetting Assets and Liabilities — In December 2011, the FASB issued new guidance that will enhance disclosure requirements about the nature of an entity’s right to offset and related arrangements associated with its financial instruments and derivative instruments. This new guidance requires the disclosure of the gross amounts subject to rights of offset, amounts offset in accordance with the accounting standards followed, and the related net exposure. This new guidance

DELL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

will be effective for Dell for the first quarter of the fiscal year ending January 31, 2014. Early adoption is not permitted. Other than requiring additional disclosures, Dell does not expect this new guidance to impact Dell's Condensed Consolidated Financial Statements.

NOTE 2 — INVENTORIES

	November 2, 2012	February 3, 2012
	(in millions)	
Inventories, net:		
Production materials	$690	$753
Work-in-process	241	239
Finished goods	433	412
Total	$1,364	$1,404

NOTE 3 — FAIR VALUE MEASUREMENTS
The following table presents Dell's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of November 2, 2012, and February 3, 2012:

	November 2, 2012				February 3, 2012			
	Level 1[(a)] Quoted Prices in Active Markets for Identical Assets	Level 2 [(a)] Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total	Level 1 [(a)] Quoted Prices in Active Markets for Identical Assets	Level 2 [(a)] Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total
				(in millions)				
Assets:								
Cash equivalents:								
Money market funds	$6,966	$—	$—	$6,966	$8,370	$—	$—	$8,370
Commercial paper	—	—	—	—	—	2,011	—	2,011
U.S. corporate	—	1	—	1	—	5	—	5
Debt securities:								
Non- U.S. government and agencies	—	108	—	108	—	94	—	94
Commercial paper	—	16	—	16	—	434	—	434
U.S. corporate	—	2,007	—	2,007	—	2,668	—	2,668
International corporate	—	822	—	822	—	1,055	—	1,055
Equity and other securities	1	111	—	112	2	105	—	107
Derivative instruments	—	42	—	42	—	140	—	140
Total assets	$6,967	$3,107	$—	$10,074	$8,372	$6,512	$—	$14,884
Liabilities:								
Derivative instruments	$—	$45	$—	$45	$—	$17	$—	$17
Total liabilities	$—	$45	$—	$45	$—	$17	$—	$17

[(a)] Dell did not transfer any securities between levels during the nine months ended November 2, 2012 or during the fiscal year ended February 3, 2012.

The following section describes the valuation methodologies Dell uses to measure financial instruments at fair value:
Cash Equivalents — The majority of Dell's cash equivalents in the above table consists of money market funds and corporate commercial paper, all with original maturities of 90 days or less and valued at fair value. The valuations of these securities are based on quoted prices in active markets for identical assets, when available, or pricing models whereby all significant inputs are observable or can be derived from or corroborated by observable market data. Dell reviews security pricing and assesses liquidity on a quarterly basis.

Debt Securities — The majority of Dell's debt securities consists of various fixed income securities such as U.S. corporate, international corporate, and non-U.S. government and agencies. Valuation is based on pricing models whereby all significant inputs, including benchmark yields, reported trades, broker-dealer quotes, issue spreads, benchmark securities, bids, offers, and other market related data, are observable or can be derived from or corroborated by observable market data for substantially the full term of the asset. Inputs are documented in accordance with the fair value measurements hierarchy. Dell reviews security pricing and assesses liquidity on a quarterly basis. See Note 4 of the Notes to the Condensed Consolidated Financial Statements for additional information about investments.

Equity and Other Securities — The majority of Dell's investments in equity and other securities that are measured at fair value on a recurring basis consist of various mutual funds held in Dell's Deferred Compensation Plan. The valuation of these securities is based on pricing models whereby all significant inputs are observable or can be derived from or corroborated by observable market data. The valuation for the Level 1 position is based on quoted prices in active markets.

Derivative Instruments — Dell's derivative financial instruments consist primarily of foreign currency forward and purchased option contracts and interest rate swaps. The fair value of the portfolio is determined using valuation models based on market observable inputs, including interest rate curves, forward and spot prices for currencies, and implied volatilities. Credit risk is factored into the fair value calculation of Dell's derivative instrument portfolio. For interest rate derivative instruments, credit risk is determined at the contract level with the use of credit default spreads of either Dell, when in a net liability position, or the relevant counterparty, when in a net asset position. For foreign exchange derivative instruments, credit risk is determined in a similar manner, except that the credit default spread is applied based on the net position of each counterparty with the use of the appropriate credit default spreads. See Note 7 of the Notes to the Condensed Consolidated Financial Statements for a description of Dell's derivative financial instrument activities.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis — Certain assets are measured at fair value on a nonrecurring basis and therefore are not included in the recurring fair value table above. These assets consist primarily of investments accounted for under the cost method and non-financial assets such as goodwill and intangible assets. Investments accounted for under the cost method included in equity and other securities approximated $124 million and $12 million as of November 2, 2012, and February 3, 2012, respectively. Dell acquired privately held investments in conjunction with its acquisition of Quest Software, Inc. during the third quarter of Fiscal 2013 that are accounted for under the cost method. The fair value of these investments was $111 million as of the date of acquisition. See Note 8 of the Notes to the Condensed Consolidated Financial Statements for additional information about this acquisition. Goodwill, intangible assets, and investments accounted for under the cost method are measured at fair value initially and subsequently when there is an indicator of impairment and the impairment is recognized. See Note 9 of the Notes to the Condensed Consolidated Financial Statements for additional information about goodwill and intangible assets.

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DELL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

NOTE 4 — INVESTMENTS

The following table summarizes, by major security type, the fair value and amortized cost of Dell's investments. All debt security investments with remaining maturities in excess of one year and substantially all equity and other securities are recorded as long-term investments in the Condensed Consolidated Statements of Financial Position.

	November 2, 2012				February 3, 2012			
	Fair Value	Cost	Unrealized Gain	Unrealized (Loss)	Fair Value	Cost	Unrealized Gain	Unrealized (Loss)
	(in millions)							
Investments:								
Non- U.S. government and agencies	$10	$10	$—	$—	$24	$24	$—	$—
Commercial paper	16	16	—	—	434	434	—	—
U.S. corporate	194	193	1	—	336	335	1	—
International corporate	61	61	—	—	172	172	—	—
Total short-term investments	281	280	1	—	966	965	1	—
Non- U.S. government and agencies	98	98	—	—	70	70	—	—
U.S. corporate	1,813	1,799	14	—	2,332	2,322	12	(2)
International corporate	761	754	7	—	883	880	4	(1)
Equity and other securities	236	237	—	(1)	119	119	—	—
Total long-term investments	2,908	2,888	21	(1)	3,404	3,391	16	(3)
Total investments	$3,189	$3,168	$22	$(1)	$4,370	$4,356	$17	$(3)

Dell's investments in debt securities are classified as available-for-sale. Equity and other securities relate to investments held in Dell's Deferred Compensation Plan, which are classified as trading securities, and investments accounted for under the cost method. The fair value of Dell's portfolio can be affected by interest rate movements, credit risk, and liquidity risks. Dell's investments in debt securities have contractual maturities of three years or less.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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NOTE 5 — FINANCIAL SERVICES
Dell Financial Services
Dell offers or arranges various financing options and services for its business and consumer customers in the U.S. and Canada through Dell Financial Services ("DFS"). DFS's key activities include the origination, collection, and servicing of customer receivables primarily related to the purchase of Dell products and services. The results of DFS are included in the business segment where the customer receivable was originated.

Dell's financing receivables are aggregated into the following categories:

- Revolving loans — Revolving loans offered under private label credit financing programs provide qualified customers with a revolving credit line for the purchase of products and services offered by Dell. These private label credit financing programs are referred to as Dell Preferred Account ("DPA") and Dell Business Credit ("DBC"). The DPA product is primarily offered to individual customers, and the DBC product is primarily offered to small and medium-sized commercial customers. Revolving loans in the U.S. bear interest at a variable annual percentage rate that is tied to the prime rate. Based on historical payment patterns, revolving loan transactions are typically repaid within 12 months on average. Revolving loans are included in short-term financing receivables. From time to time, account holders may have the opportunity to finance their Dell purchases with special programs during which, if the outstanding balance is paid in full by a specific date, no interest is charged. These special programs generally range from 6 to 12 months. As of November 2, 2012, and February 3, 2012, the carrying amounts of the receivables under these special programs were $275 million and $328 million, respectively.

- Fixed-term sales-type leases and loans — Dell enters into sales-type lease arrangements with customers who desire lease financing. Leases with business customers have fixed terms of generally two to four years. Future maturities of minimum lease payments at November 2, 2012, were as follows: Fiscal 2013 - $355 million; Fiscal 2014 - $996 million; Fiscal 2015 - $611 million; Fiscal 2016 - $208 million; Fiscal 2017 and beyond - $27 million. Dell also offers fixed-term loans to qualified small businesses, large commercial accounts, governmental organizations, educational entities, and certain individual customers. These loans are repaid in equal payments including interest and have defined terms of generally three to four years.

Dell has two portfolio segments that are based on how Dell assesses risk and determines the appropriate allowance levels, (1) fixed-term leases and loans and (2) revolving loans. Portfolio segments are further segregated into classes. During the first quarter of Fiscal 2013, Dell re-aligned the presentation of these classes based on products, customer type, credit risk evaluation, and whether the receivable was owned by Dell since its inception or was purchased subsequent to its inception. Prior to the first quarter of Fiscal 2013, portfolio classes were based on operating segment and whether the receivable was owned by Dell since its inception or was purchased subsequent to its inception. This change in presentation during the first quarter of Fiscal 2013 affected disclosures only and had no impact on how credit risk is assessed or on reserve rates.

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DELL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

The following table summarizes the components of Dell's financing receivables segregated by portfolio segment as of November 2, 2012, and February 3, 2012:

	November 2, 2012			February 3, 2012		
	Revolving	Fixed-term	Total	Revolving	Fixed-term	Total
	(in millions)					
Financing Receivables, net:						
Customer receivables, gross	$1,819	$2,484	$4,303	$2,096	$2,443	$4,539
Allowances for losses	(163)	(22)	(185)	(179)	(23)	(202)
Customer receivables, net	1,656	2,462	4,118	1,917	2,420	4,337
Residual interest	—	387	387	—	362	362
Financing receivables, net	$1,656	$2,849	$4,505	$1,917	$2,782	$4,699
Short-term	$1,656	$1,495	$3,151	$1,917	$1,410	$3,327
Long-term	—	1,354	1,354	—	1,372	1,372
Financing receivables, net	$1,656	$2,849	$4,505	$1,917	$2,782	$4,699

The following table summarizes the changes in the allowance for financing receivable losses for the respective periods:

	Three Months Ended					
	November 2, 2012			October 28, 2011		
	Revolving	Fixed-term	Total	Revolving	Fixed-term	Total
	(in millions)					
Allowance for financing receivable losses:						
Balance at beginning of period	$168	$21	$189	$189	$21	$210
Principal charge-offs	(42)	(8)	(50)	(45)	(2)	(47)
Interest charge-offs	(8)	—	(8)	(8)	—	(8)
Recoveries	12	1	13	9	1	10
Provision charged to income statement	33	8	41	30	2	32
Balance at end of period	$163	$22	$185	$175	$22	$197

	Nine Months Ended					
	November 2, 2012			October 28, 2011		
	Revolving	Fixed-term	Total	Revolving	Fixed-term	Total
	(in millions)					
Allowance for financing receivable losses:						
Balance at beginning of period	$179	$23	$202	$214	$27	$241
Principal charge-offs	(133)	(15)	(148)	(152)	(6)	(158)
Interest charge-offs	(25)	—	(25)	(28)	—	(28)
Recoveries	46	3	49	39	3	42
Provision charged to income statement	96	11	107	102	(2)	100
Balance at end of period	$163	$22	$185	$175	$22	$197

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DELL INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(unaudited)

The following table summarizes the aging of Dell's customer receivables, gross, including accrued interest, as of November 2, 2012, and February 3, 2012, segregated by class:

	November 2, 2012				February 3, 2012			
	Current	Past Due 1 — 90 Days	Past Due > 90 Days	Total	Current	Past Due 1 — 90 Days	Past Due > 90 Days	Total
	(in millions)							
Revolving — DPA								
Owned since inception	$1,134	$133	$43	$1,310	$1,249	$148	$49	$1,446
Purchased	182	30	10	222	272	47	18	337
Fixed-term — Non-Commercial								
Owned since inception	46	2	—	48	29	1	—	30
Purchased	34	3	—	37	61	5	1	67
Revolving — DBC	252	28	7	287	272	33	8	313
Fixed-term — Small Commercial	229	10	3	242	234	12	4	250
Fixed-term — Medium and Large Commercial	1,859	285	13	2,157	1,946	136	14	2,096
Total customer receivables, gross	$3,736	$491	$76	$4,303	$4,063	$382	$94	$4,539

DFS Acquisitions

In Fiscal 2012, Dell entered into a definitive agreement to acquire CIT Vendor Finance's Dell-related financing assets portfolio and sales and servicing functions in Europe. The acquisition of these assets will enable global expansion of Dell's direct finance model. Subject to customary closing, regulatory, and other conditions, Dell expects to complete this transaction in Fiscal 2014.

Purchased Credit-Impaired Loans

During the third quarter of Fiscal 2011, Dell purchased a portfolio of revolving loan receivables from CIT Group Inc. Prior to the acquisition, it was evident that Dell would not collect all contractually required principal and interest payments. As a result, these receivables met the definition of Purchased Credit-Impaired ("PCI") loans. At November 2, 2012, the outstanding balance of these receivables, including principal and accrued interest, was $330 million and the carrying amount was $117 million.

The excess of cash flows expected to be collected over the carrying value of PCI loans is referred to as the accretable yield and is accreted into interest income using the effective yield method based on the expected future cash flows over the estimated lives of the PCI loans.

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The following table shows activity for the accretable yield on the PCI loans for the three and nine months ended November 2, 2012, and October 28, 2011. Dell expects the remaining balance of the accretable yield as of November 2, 2012 to be recognized over the next two years, using the effective interest method.

	Three Months Ended		Nine Months Ended	
	November 2, 2012	October 28, 2011	November 2, 2012	October 28, 2011
	(in millions)			
Accretable Yield:				
Balance at beginning of period	$113	$152	$142	$137
Accretion	(19)	(23)	(58)	(67)
Prospective yield adjustment	7	8	17	67
Balance at end of period	$101	$137	$101	$137

Credit Quality

The following tables summarize customer receivables, gross, including accrued interest by credit quality indicator segregated by class, as of November 2, 2012, and February 3, 2012. For DPA revolving and fixed-term loans to individual customers, Dell makes credit decisions based on proprietary scorecards, which include the customer's credit history, payment history, credit usage, and other credit agency-related elements. For commercial customers, Dell utilizes an internal grading system that assigns a credit level score based on a number of considerations, including liquidity, operating performance, and industry outlook. These credit level scores range from one to sixteen for medium and large-sized commercial customers, which includes governmental customers. The credit level scores for DBC and small commercial customers generally range from one to six. The categories shown in the tables below segregate customer receivables based on the relative degrees of credit risk. The credit quality categories cannot be compared between the different classes as loss experience in each class varies substantially. The credit quality indicators for DPA revolving accounts are primarily as of each quarter-end date, and all others are generally updated on a periodic basis.

For the receivables shown in the table below, the higher quality category includes prime accounts generally of a higher credit quality that are comparable to U.S. customer FICO scores of 720 or above. The mid-category represents the mid-tier accounts that are comparable to U.S. customer FICO scores from 660 to 719. The lower category is generally sub-prime and represents lower credit quality accounts that are comparable to U.S customer FICO scores below 660.

	November 2, 2012				February 3, 2012			
	Higher	Mid	Lower	Total	Higher	Mid	Lower	Total
	(in millions)							
Revolving — DPA								
Owned since inception	$184	$375	$751	$1,310	$220	$412	$814	$1,446
Purchased	$19	$55	$148	$222	$28	$80	$229	$337
Fixed-term — Non-Commercial								
Owned since inception	$2	$24	$22	$48	$2	$14	$14	$30
Purchased	$2	$18	$17	$37	$4	$32	$31	$67

For the receivables shown in the table below, the higher quality category includes receivables that are generally within Dell's top two internal credit quality levels, which typically have the lowest loss experience. The middle category generally falls within credit levels three and four, and the lower category generally falls within Dell's bottom two credit levels, which experience higher loss rates. Although both fixed-term and revolving products generally rely on a six-level internal rating

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system, the grading criteria and classifications are different as the loss performance varies between these product and customer sets. Therefore, the credit levels are not comparable between the small commercial fixed-term and DBC revolving classes.

	November 2, 2012				February 3, 2012			
	Higher	Mid	Lower	Total	Higher	Mid	Lower	Total
	(in millions)							
Revolving — DBC	$97	$88	$102	$287	$111	$98	$104	$313
Fixed-term — Small Commercial[a]	$97	$66	$79	$242	$91	$74	$85	$250

[a] During the first quarter of Fiscal 2013, Dell re-defined its internal scoring categorization for its small Commercial fixed-term customers. In connection with this change, Dell has re-categorized existing customers and has recast prior period credit quality categories for these customers to conform to the current year's classification. This change had no impact on Dell's allowance for loss rates.

For the receivables shown in the table below, Dell's internal credit level scoring has been aggregated to their most comparable external commercial rating agency equivalents. Investment grade generally represents the highest credit quality accounts, non-investment grade represents middle quality accounts, and sub-standard represents the lowest quality accounts.

	November 2, 2012				February 3, 2012			
	Investment	Non-Investment	Sub-Standard	Total	Investment	Non-Investment	Sub-Standard	Total
	(in millions)							
Fixed-term — Medium and Large Commercial	$1,370	$ 546	$ 241	$2,157	$1,504	$ 363	$ 229	$2,096

Asset Securitizations and Sales

Dell transfers certain U.S. customer financing receivables to Special Purpose Entities (“SPEs”) which meet the definition of a Variable Interest Entity ("VIE") and are consolidated into Dell's Condensed Consolidated Financial Statements. The SPEs are bankruptcy remote legal entities with separate assets and liabilities. The purpose of the SPEs is to facilitate the funding of customer receivables in the capital markets. These SPEs have entered into financing arrangements with multi-seller conduits that, in turn, issue asset-backed debt securities in the capital markets. Dell's risk of loss related to securitized receivables is limited to the amount by which Dell's right to receive collections for assets securitized exceeds the amount required to pay interest, principal, and other fees and expenses related to the asset-backed securities. Dell provides credit enhancement to the securitization in the form of over-collateralization. Customer receivables funded via securitization through SPEs were $550 million and $501 million during the three months ended November 2, 2012, and October 28, 2011, respectively, and $1.5 billion and $1.6 billion for the nine months ended November 2, 2012, and October 28, 2011, respectively.

The following table shows financing receivables held by the consolidated VIEs:

	November 2, 2012	February 3, 2012

	(in millions)	
Financing receivables held by consolidated VIEs, net:		
Short-term, net	$1,136	$1,096
Long-term, net	459	429
Financing receivables held by consolidated VIEs, net	$1,595	$1,525

Dell's securitization programs are generally effective for 12 months and are subject to an annual renewal process. These programs contain standard structural features related to the performance of the securitized receivables. The structural features include defined credit losses, delinquencies, average credit scores, and excess collections above or below specified levels. In the event one or more of these criteria are not met and Dell is unable to restructure the program, no further funding of receivables will be permitted and the timing of Dell's expected cash flows from over-collateralization will be delayed. At November 2, 2012, these criteria were met.

Dell sells selected fixed-term financing receivables to unrelated third parties on a periodic basis, primarily to manage certain concentrations of customer credit exposure. For the three months ended November 2, 2012, and October 28, 2011, the amount of the receivables sold was $77 million and $62 million, respectively. For the nine months ended November 2, 2012, and October 28, 2011, the amount of the receivables sold was $375 million and $107 million, respectively.

Structured Financing Debt

The structured financing debt related to the fixed-term lease and loan programs and the revolving loan securitization program was $1.4 billion and $1.3 billion as of November 2, 2012, and February 3, 2012, respectively. The debt is collateralized solely by the financing receivables in the programs. The debt has a variable interest rate and an average duration of 12 to 36 months based on the terms of the underlying financing receivables. As of November 2, 2012, the total debt capacity related to the securitization programs was $1.5 billion. Dell's securitization programs are structured to operate near their debt capacity. See Note 6 of the Notes to the Condensed Consolidated Financial Statements for additional information regarding the structured financing debt.

Dell enters into interest rate swap agreements to effectively convert a portion of the structured financing debt from a floating rate to a fixed rate. The interest rate swaps qualify for hedge accounting treatment as cash flow hedges. See Note 7 of the Notes to the Condensed Consolidated Financial Statements for additional information about interest rate swaps.

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NOTE 6 — BORROWINGS
The following table summarizes Dell's outstanding debt as of the dates indicated:

	November 2, 2012	February 3, 2012
	(in millions)	
Long-Term Debt		
Senior Notes		
$400 million issued on June 10, 2009, at 3.375% due June 2012 (“2012 Notes”)[a]	$—	$400
$600 million issued on April 17, 2008, at 4.70% due April 2013 (“2013A Notes”)[a][b]	602	605
$500 million issued on September 7, 2010, at 1.40% due September 2013	500	499
$500 million issued on April 1, 2009, at 5.625% due April 2014 [b]	500	500
$300 million issued on March 28, 2011, with a floating rate due April 2014	300	300
$400 million issued on March 28, 2011, at 2.10% due April 2014	400	400
$700 million issued on September 7, 2010, at 2.30% due September 2015 [b]	702	701
$400 million issued on March 28, 2011, at 3.10% due April 2016 [b]	402	401
$500 million issued on April 17, 2008, at 5.65% due April 2018 [b]	503	501
$600 million issued on June 10, 2009, at 5.875% due June 2019[b]	605	602
$400 million issued on March 28, 2011, at 4.625% due April 2021	398	398
$400 million issued on April 17, 2008, at 6.50% due April 2038	400	400
$300 million issued on September 7, 2010, at 5.40% due September 2040	300	300
Senior Debentures		
$300 million issued on April 3, 1998, at 7.10% due April 2028 ("Senior Debentures")[a]	380	384
Other		
Long-term structured financing debt	975	920
Less: current portion of long-term debt	(1,657)	(924)
Total long-term debt	5,310	6,387
Short-Term Debt		
Commercial paper	1,639	1,500
Short-term structured financing debt	426	440
Current portion of long-term debt	1,657	924
Other	2	3
Total short-term debt	3,724	2,867
Total debt	$9,034	$9,254

[a] Includes the impact of interest rate swap terminations.
[b] Includes hedge accounting adjustments.

As of November 2, 2012, the total carrying value and estimated fair value of outstanding senior notes and debentures, including the current portion, was $6.0 billion and $6.4 billion, respectively. This is compared to a carrying value and estimated fair value of $6.4 billion and $6.9 billion, respectively, as of February 3, 2012. The fair value of outstanding senior notes and debentures was determined based on observable market prices in a less active market and was categorized as Level 2 in the fair value hierarchy. The fair values of the structured financing debt, commercial paper, and other short-term debt approximate their carrying values as their interest rates vary with the market. The carrying value of the Senior Debentures, the 2012 Notes, and the 2013A Notes includes an unamortized amount related to the termination of interest rate swap agreements, which were previously designated as hedges of the debt. See Note 7 of the Notes to the Condensed Consolidated Financial Statements for additional information about interest rate swaps.

The weighted average interest rate for the short-term structured financing debt and other as of November 2, 2012, and February 3, 2012, was 0.22% and 0.28%, respectively.

Structured Financing Debt — As of November 2, 2012, Dell had $1.4 billion outstanding in structured financing debt. Of the

$975 million outstanding in long-term structured financing related debt, which is primarily related to the fixed-term lease and loan programs, $555 million was classified as current as of November 2, 2012. See Note 5 and Note 7 of the Notes to the Condensed Consolidated Financial Statements for further discussion of the structured financing debt and the interest rate swap agreements that hedge a portion of that debt.

Commercial Paper — As of November 2, 2012, and February 3, 2012, there was $1.6 billion and $1.5 billion, respectively, outstanding under the commercial paper program. The weighted average interest rate on outstanding commercial paper as of November 2, 2012, and February 3, 2012, was 0.34% and 0.23%, respectively. Dell has $3.0 billion in senior unsecured revolving credit facilities, primarily to support its $2.5 billion commercial paper program. Of these credit facilities, $1.0 billion will expire on April 2, 2013, and $2.0 billion will expire on April 15, 2015. There were no outstanding advances under the revolving credit facilities as of November 2, 2012.

The indentures governing the senior notes and debentures and the structured financing debt shown in the above table contain customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, and certain events of bankruptcy and insolvency. The indentures also contain covenants limiting Dell's ability to create certain liens; enter into sale-and-lease back transactions; and consolidate or merge with, or convey, transfer or lease all or substantially all of its assets to, another person. The senior unsecured revolving credit facilities require compliance with conditions that must be satisfied prior to any borrowing, as well as ongoing compliance with specified affirmative and negative covenants, including maintenance of a minimum interest coverage ratio. Dell was in compliance with all financial covenants as of November 2, 2012.

NOTE 7 — DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Derivative Instruments

As part of its risk management strategy, Dell uses derivative instruments, primarily forward contracts and purchased options, to hedge certain foreign currency exposures and interest rate swaps to manage the exposure of its debt portfolio to interest rate risk. Dell's objective is to offset gains and losses resulting from these exposures with gains and losses on the derivative contracts used to hedge the exposures, thereby reducing volatility of earnings and protecting fair values of assets and liabilities. Dell assesses hedge effectiveness both at the onset of the hedge and at regular intervals throughout the life of the derivative and recognizes any ineffective portion of the hedge, as well as amounts not included in the assessment of effectiveness, in earnings as a component of interest and other, net. Hedge ineffectiveness and amounts not included in the assessment of effectiveness were not material for fair value or cash flow hedges for the three and nine months ended November 2, 2012, and October 28, 2011.

Foreign Exchange Risk

Dell uses forward contracts and purchased options designated as cash flow hedges to protect against the foreign currency exchange rate risks inherent in its forecasted transactions denominated in currencies other than the U.S. dollar. The risk of loss associated with purchased options is limited to premium amounts paid for the option contracts. The risk of loss associated with forward contracts is equal to the exchange rate differential from the time the contract is entered into until the time it is settled. The majority of these contracts typically expire in twelve months or less. During the three and nine months ended November 2, 2012, and October 28, 2011, Dell did not discontinue any cash flow hedges related to foreign exchange contracts that had a material impact on Dell's results of operations, as substantially all forecasted foreign currency transactions were realized in Dell's actual results.
In addition, Dell uses forward contracts and purchased options to hedge monetary assets and liabilities denominated in a foreign currency. These contracts generally expire in three months or less, are considered economic hedges and are not designated. The change in the fair value of these instruments represents a natural hedge as their gains and losses offset the changes in the underlying fair value of the monetary assets and liabilities due to movements in currency exchange rates. Dell recognized gains for the change in fair value of these instruments of $10 million and $55 million during the three months ended November 2, 2012, and October 28, 2011, respectively, and $6 million and $65 million during the nine months ended November 2, 2012, and October 28, 2011, respectively.

Interest Rate Risk

Dell uses interest rate swaps to hedge the variability in cash flows related to the interest rate payments on structured financing debt. The interest rate swaps economically convert the variable rate on the structured financing debt to a fixed interest rate to match the underlying fixed rate being received on fixed term customer leases and loans. The duration of these contracts typically ranges from 30 to 42 months. Certain of these swaps are designated as cash flow hedges.

In addition, Dell may use forward-starting interest rate swaps and interest rate lock agreements to lock in fixed interest rates on its forecasted issuances of debt. The objective of these hedges is to offset the variability of future payments associated with the interest rate on debt instruments. As of November 2, 2012, Dell had $600 million in aggregate notional amounts of forward-starting interest rate swaps outstanding. These hedges are designated as cash flow hedges. Dell did not have any forward-starting interest rate swaps designated as cash flow hedges at October 28, 2011.

Periodically, Dell also uses interest rate swaps designated as fair value hedges to modify the market risk exposures in connection with long-term debt to achieve primarily LIBOR-based floating interest expense. As of November 2, 2012 and October 28, 2011, Dell had outstanding interest rate swaps that economically hedge a portion of its interest rate exposure on certain tranches of long term debt.

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Notional Amounts of Outstanding Derivative Instruments

The notional amounts of Dell's outstanding derivative instruments are as follows as of the dates indicated:

	November 2, 2012	February 3, 2012
	(in millions)	
Foreign Exchange Contracts		
Designated as cash flow hedging instruments	$3,126	$4,549
Non-designated as hedging instruments	393	168
Total	$3,519	$4,717
Interest Rate Contracts		
Designated as fair value hedging instruments	$800	$650
Designated as cash flow hedging instruments	1,428	751
Non-designated as hedging instruments	146	132
Total	$2,374	$1,533

Derivative Instruments Additional Information

The unrealized net loss for interest rate swaps and foreign currency exchange contracts, recorded as a component of accumulated other comprehensive loss in the Condensed Consolidated Statements of Financial Position, as of November 2, 2012, and February 3, 2012, was $46 million and $40 million, respectively.

Dell has reviewed the existence and nature of credit-risk-related contingent features in derivative trading agreements with its counterparties. Certain agreements contain clauses under which, if Dell's credit ratings were to fall below investment grade upon a change of control of Dell, counterparties would have the right to terminate those derivative contracts where Dell is in a net liability position. As of November 2, 2012, there had been no such triggering event.

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Effect of Derivative Instruments on the Consolidated Statements of Financial Position and the Consolidated Statements of Income

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in Accumulated OCI, Net of Tax, on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)
(in millions)					
For the three months ended November 2, 2012					
		Total net revenue	$(42)		
Foreign exchange contracts	$(82)	Total cost of net revenue	(9)		
Interest rate contracts	(2)	Interest and other, net	—	Interest and other, net	$(2)
Total	$(84)		$(51)		$(2)
For the three months ended October 28, 2011					
		Total net revenue	$(17)		
Foreign exchange contracts	$54	Total cost of net revenue	7		
Interest rate contracts	—	Interest and other, net	—	Interest and other, net	$1
Total	$54		$(10)		$1
For the nine months ended November 2, 2012					
		Total net revenue	$(10)		
Foreign exchange contracts	$(28)	Total cost of net revenue	(15)		
Interest rate contracts	(5)	Interest and other, net	—	Interest and other, net	$(2)
Total	$(33)		$(25)		$(2)
For the nine months ended October 28, 2011					
		Total net revenue	$(255)		
Foreign exchange contracts	$(185)	Total cost of net revenue	(14)		
Interest rate contracts	3	Interest and other, net	—	Interest and other, net	$2
Total	$(182)		$(269)		$2

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Fair Value of Derivative Instruments in the Consolidated Statements of Financial Position
Dell presents its foreign exchange derivative instruments on a net basis in the Condensed Consolidated Statements of Financial Position due to the right of offset by its counterparties under master netting arrangements. The fair value of those derivative instruments presented on a gross basis as of each date indicated below was as follows:

	November 2, 2012				
	Other Current Assets	Other Non-Current Assets	Other Current Liabilities	Other Non-Current Liabilities	Total Fair Value
		(in millions)			
Derivatives Designated as Hedging Instruments					
Foreign exchange contracts in an asset position	$22	$—	$69	$ —	$91
Foreign exchange contracts in a liability position	(20)	—	(93)	—	