

DELL INC
Form 10-Q
October 30, 2007

Table of Contents

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

Form 10-Q

(Mark One)

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

**For the quarterly period ended May 4, 2007
or**

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

For the transition period from to .

Commission file number: 0-17017

Dell Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation or organization)

74-2487834

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

**One Dell Way,
Round Rock, Texas 78682**

(Address of Principal Executive Offices) (Zip Code)

(512) 338-4400

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

As of the close of business on October 19, 2007, 2,235,866,516 shares of common stock, par value \$.01 per share, were outstanding.

INDEX

Page

Part I FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Financial Statements</u>	
	<u>Condensed Consolidated Statements of Financial Position at May 4, 2007 (unaudited) and February 2, 2007</u>	1
	<u>Condensed Consolidated Statements of Income for the three month periods ended May 4, 2007 (unaudited) and May 5, 2006 (unaudited and restated)</u>	2
	<u>Condensed Consolidated Statements of Cash Flows for the three month periods ended May 4, 2007 (unaudited) and May 5, 2006 (unaudited and restated)</u>	3
	<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	4
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	31
<u>Item 4.</u>	<u>Controls and Procedures</u>	31

Part II OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	35
<u>Item 1A.</u>	<u>Risk Factors</u>	35
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	36
<u>Item 6.</u>	<u>Exhibits</u>	36

Form of Performance Based Stock Unit Agreement
Form of Nonstatutory Stock Option Agreement
Form of Restricted Stock Unit Agreement
Form of Restricted Stock Agreement
Form of Restricted Stock Unit Agreement
Form of Nonstatutory Stock Option Agreement
Certification of Chairman and CEO Pursuant to Section 302
Certification of Vice Chairman and CFO Pursuant to Section 302
Certifications Pursuant to Section 906

Special Note

The Audit Committee of our Board of Directors recently completed an independent investigation into certain accounting and financial reporting matters. As a result of issues identified in that investigation, as well as issues identified in additional reviews and procedures conducted by management, the Audit Committee, in consultation with management and PricewaterhouseCoopers LLP, our independent registered public accounting firm, concluded on August 13, 2007 that our previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements. Accordingly, we have restated our previously issued financial statements for those periods. Restated financial information is presented in our amended Quarterly Report on Form 10-Q/A for the first quarter of Fiscal 2007, as well as in our Annual Report on Form 10-K for Fiscal 2007. Those documents also contain a discussion of the investigation, the accounting errors and irregularities identified, and the adjustments made as a result of the restatement.

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

	May 4, 2007 (unaudited)	February 2, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,260	\$ 9,546
Short-term investments	919	752
Accounts receivable, net	4,740	4,622
Financing receivables, net	1,503	1,530
Inventories	764	660
Other	2,585	2,829
Total current assets	19,771	19,939
Property, plant, and equipment, net	2,452	2,409
Investments	2,058	2,147
Long-term financing receivables, net	349	323
Other non-current assets	914	817
Total assets	\$ 25,544	\$ 25,635
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	\$ 334	\$ 188
Accounts payable	9,670	10,430
Accrued and other	5,680	7,173
Total current liabilities	15,684	17,791
Long-term debt	381	569
Other non-current liabilities	4,289	2,836
Total liabilities	20,354	21,196
Commitments and contingencies (Note 8)		
Redeemable common stock and capital in excess of \$.01 par value; shares issued and outstanding: 5 and 5, respectively (Note 12)	119	111

Stockholders' equity:

Preferred stock and capital in excess of \$.01 par value; shares issued and outstanding: none		
Common stock and capital in excess of \$.01 par value; shares authorized: 7,000; shares issued: 3,312 and 3,307, respectively; shares outstanding: 2,231 and 2,226, respectively	10,216	10,107
Treasury stock at cost: 606 and 606 shares, respectively	(21,033)	(21,033)
Retained earnings	16,008	15,282
Accumulated other comprehensive loss	(120)	(28)
Total stockholders' equity	5,071	4,328
Total liabilities and equity	\$ 25,544	\$ 25,635

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

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

	Three Months Ended	
	May 4, 2007	May 5, 2006 As Restated
Net revenue	\$ 14,722	\$ 14,320
Cost of net revenue	11,884	11,812
Gross margin	2,838	2,508
Operating expenses:		
Selling, general, and administrative	1,763	1,414
Research, development, and engineering	142	129
Total operating expenses	1,905	1,543
Operating income	933	965
Investment and other income, net	78	54
Income before income taxes	1,011	1,019
Income tax provision	255	243
Net income	\$ 756	\$ 776
Earnings per common share:		
Basic	\$ 0.34	\$ 0.34
Diluted	\$ 0.34	\$ 0.33
Weighted-average shares outstanding:		
Basic	2,234	2,297
Diluted	2,254	2,318

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

Table of Contents

DELL INC.

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

	Three Months Ended	
	May 4, 2007	May 5, 2006 As Restated
Cash flows from operating activities:		
Net income	\$ 756	\$ 776
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	132	106
Stock-based compensation	97	113
Excess tax benefits from stock-based compensation	(12)	(32)
Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies	22	14
Other	31	25
Changes in:		
Operating working capital	(2,154)	(36)
Non-current assets and liabilities	1,029	58
Net cash (used in) provided by operating activities	(99)	1,024
Cash flows from investing activities:		
Investments:		
Purchases	(1,104)	(3,070)
Maturities and sales	1,068	3,548
Capital expenditures	(171)	(187)
Net cash (used in) provided by investing activities	(207)	291
Cash flows from financing activities:		
Repurchase of common stock		(1,691)
Issuance of common stock under benefit plans	21	138
Excess tax benefits from stock-based compensation	12	32
Issuance of commercial paper, net	(40)	
Other	(6)	(13)
Net cash used in financing activities	(13)	(1,534)
Effect of exchange rate changes on cash and cash equivalents	33	54
Net decrease in cash and cash equivalents	(286)	(165)
Cash and cash equivalents at beginning of period	9,546	7,054

Cash and cash equivalents at end of period	\$ 9,260	\$ 6,889
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The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

DELL INC.

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

NOTE 1 Basis of Presentation

Basis of Presentation The accompanying condensed consolidated financial statements of Dell Inc. (Dell) should be read in conjunction with the consolidated financial statements and accompanying notes filed with the U.S. Securities and Exchange Commission (SEC) in Dell s Annual Report on Form 10-K for the fiscal year ended February 2, 2007. 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 May 4, 2007 and February 2, 2007; and the results of its operations and its cash flows for the three month periods ended May 4, 2007 and May 5, 2006.

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.

Dell is currently a partner in Dell Financial Services L.P. (DFS), a joint venture with CIT Group, Inc. (CIT). The joint venture allows Dell to provide its customers with various financing alternatives. Dell consolidates DFS financial results in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46R (FIN 46R) as Dell is the primary beneficiary. See Note 6 of Notes to Condensed Consolidated Financial Statements.

The Audit Committee of Dell s Board of Directors recently completed an independent investigation into certain accounting and financial reporting matters. As a result of issues identified in that investigation, as well as issues identified in additional reviews and procedures conducted by management, the Audit Committee, in consultation with management and PricewaterhouseCoopers LLP, Dell s independent registered public accounting firm, concluded on August 13, 2007 that Dell s previously issued financial statements for Fiscal 2003, 2004, 2005, and 2006 (including the interim periods within those years), and the first quarter of Fiscal 2007, should no longer be relied upon because of certain accounting errors and irregularities in those financial statements. Accordingly, Dell has restated its previously issued financial statements for those periods. Restated financial information, as well as a discussion of the investigation, the accounting errors and irregularities identified, and the adjustments made as a result of the restatement, are contained in Dell s Annual Report on Form 10-K for the fiscal year ended February 2, 2007 and its amended Quarterly Report on Form 10-Q/A for the period ended May 5, 2006.

Recently Issued Accounting Pronouncements In February 2006, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 155, *Accounting for Certain Hybrid Instruments* (SFAS 155), which is an amendment of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities a replacement of FASB Statement No. 125* (SFAS 140). SFAS 155 allows Dell to elect to account for financial instruments with embedded derivatives as a whole on a fair value basis, instead of bifurcating the derivative from the host financial instrument. This statement also requires Dell to evaluate its interest in securitized financial assets to identify any freestanding derivatives and embedded derivatives, and clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives. SFAS 155 is effective for all financial instruments acquired, issued, or subject to a remeasurement event after the beginning of Dell s Fiscal 2008. Dell determined that its retained interest in securitized assets contains embedded derivatives and elected to account for the entire asset on a fair value basis. The fair value

basis did not have a material effect on Dell's results of operations, financial position, or cash flows.

Table of Contents

DELL INC.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)**

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

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

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. Dell adopted this Interpretation in the first quarter of Fiscal 2008 and records tax liabilities resulting from uncertain tax positions and accrued interest and penalties related to income tax liabilities in accrued and other current liabilities or other non-current liabilities in the Condensed Consolidated Statements of Financial Position. Interest and penalties related to income tax liabilities are included in income tax expense. See Note 11 of Notes to Condensed Consolidated Financial Statements for further discussion of income taxes.

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

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

impact that this statement may have on Dell's results of operations and financial position, and has yet to make a decision on the elective adoption of SFAS 159.

Table of Contents**DELL INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)**

Reclassifications To maintain comparability among the periods presented, Dell has revised the presentation of certain prior period amounts reported within the Notes to Consolidated Financial Statements. For further discussion regarding the presentation of service obligations honored, see Note 7 of Notes to Condensed Consolidated Financial Statements.

NOTE 2 Inventories

	May 4, 2007	February 2, 2007
	(in millions)	
<i>Inventories:</i>		
Production materials	\$ 432	\$ 361
Work-in-process	60	61
Finished goods	272	238
Inventories	\$ 764	\$ 660

NOTE 3 Earnings Per Common Share

Basic earnings per share is based on the weighted-average effect of all common shares issued and outstanding, and is calculated by dividing net income by the weighted-average shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted-average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming exercise or conversion of all potentially dilutive common shares outstanding. Dell excludes equity instruments from the calculation of diluted earnings per share if the effect of including such instruments is antidilutive. Accordingly, certain employee stock options have been excluded from the calculation of diluted earnings per share totaling 285 million and 209 million shares during the first quarter of Fiscal 2008 and Fiscal 2007, respectively. Additionally, shares held by a subsidiary are considered issued but not outstanding, and are excluded from the calculation of basic earnings per share.

The following table sets forth the computation of basic and diluted earnings per share for the three month periods ended May 4, 2007 and May 5, 2006:

	Three Months Ended May 4, 2007	May 5, 2006 As Restated
	(in millions, except per share amounts)	

Numerator:			
Net income	\$	756	\$ 776
Denominator:			
Weighted-average shares outstanding:			
Basic		2,234	2,297
Effect of dilutive options, restricted stock units, restricted stock, and other		20	21
Diluted		2,254	2,318
Earnings per common share:			
Basic	\$	0.34	\$ 0.34
Diluted	\$	0.34	\$ 0.33

Table of Contents

DELL INC.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(unaudited)**

NOTE 4 Comprehensive Income

Dell's comprehensive income is comprised of net income, unrealized gains and losses on derivative financial instruments related to foreign currency hedging, unrealized gains and losses on marketable securities classified as available-for-sale, unrealized gains and losses related to the change in valuation of retained interests in securitized assets, and foreign currency translation adjustments.

The following table summarizes comprehensive income for the three mont>

(i) Stock Purchase Agreement, dated March 5, 2003, between Interleukin Genetics, Inc. and Pyxis Innovations Inc. (hereby incorporated by reference to Exhibit 10.1 to the Issuer's Form 8-K filed on March 5, 2003).

(ii) Amendment No. 1 to Stock Purchase Agreement, dated May 20, 2003, between Interleukin Genetics, Inc. and Pyxis Innovations Inc. (hereby incorporated by reference to Exhibit 10.1 to the Issuer's Form 8-K filed on May 30, 2003).

(iii) Second Amendment to Stock Purchase Agreement, dated March 5, 2005, between Interleukin Genetics, Inc. and Pyxis Innovations Inc. (hereby incorporated by reference to Exhibit 10.41 to the Issuer's Form 10-K for the year ended December 31, 2004).

99.2 Certificate of Designations, Preferences and Rights of the Series A Preferred Stock of Interleukin Genetics, Inc. filed with the Delaware Secretary of State (hereby incorporated by reference to Exhibit 3.1 to the Issuer's Form 8-K filed on March 5, 2003).

99.3(i) Stock Purchase Agreement, dated August 17, 2006, between Interleukin Genetics, Inc. and Pyxis Innovations Inc. (hereby incorporated by reference to Exhibit 99.12 to Amendment No. 4 filed August 28, 2006).

(ii) First Amendment to Stock Purchase Agreement, dated August 12, 2008, between Interleukin Genetics, Inc. and Pyxis Innovations Inc. (hereby incorporated by reference to Exhibit 99.14 to Amendment No. 7 filed September 19, 2008).

(iii) Second Amendment to Stock Purchase Agreement, dated March 10, 2009, between Interleukin Genetics, Inc. and Pyxis Innovations Inc. (hereby incorporated by reference to Exhibit 99.3(iii) to Amendment No. 8 filed March 26, 2009).

99.4(i) Amended and Restated Note Purchase Agreement, dated March 10, 2009, between Interleukin Genetics, Inc. and Pyxis Innovations Inc. (hereby incorporated by reference to Exhibit 99.1 to the Issuer's Form 8-K filed on March 13, 2009).

(ii) First Amendment to Amended and Restated Note Purchase Agreement dated August 10, 2009 between Interleukin Genetics, Inc. and Pyxis Innovations Inc. (hereby incorporated by reference to Exhibit 99.4(ii) to Amendment No. 9 filed August 19, 2009).

(iii) Second Amendment to Amended and Restated Note Purchase Agreement dated February 1, 2010 between Interleukin Genetics, Inc. and Pyxis Innovations Inc. (hereby incorporated by reference to Exhibit 10.1 to the Issuer's Form 8-K filed on February 2, 2010).

(iv) Third Amendment to Amended and Restated Note Purchase Agreement dated September 30, 2010 between Interleukin Genetics, Inc. and Pyxis Innovations Inc. (hereby incorporated by reference to Exhibit 10.1 to the Issuer's Form 8-K filed on October 5, 2010).

99.5(i) Exclusive License Agreement, dated March 5, 2003, between Interleukin Genetics, Inc. and Access Business Group International LLC (hereby incorporated by reference to Exhibit 10.7 to the Issuer's Form 8-K filed on March 5, 2003).

(ii) *First Amendment to Exclusive License Agreement, dated September 1, 2008, between Interleukin Genetics, Inc. and Access Business Group International LLC (hereby incorporated by reference to Exhibit 99.16 to Amendment No. 7 filed September 19, 2008).

99.6 Amended and Restated Bylaws of Interleukin Genetics, Inc. filed with the Delaware Secretary of State (hereby incorporated by reference to Exhibit 3.1 to the Issuer's Form 8-K filed on July 28, 2008).

99.7 Registration Rights Agreement, dated March 5, 2003, between Interleukin Genetics, Inc. and Pyxis Innovations Inc. (hereby incorporated by reference to Exhibit 10.8 to the Issuer's Form 8-K filed on March 5, 2003).

*Confidential treatment granted as to certain portions, which portions were omitted and filed separately with the SEC.

SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: November 10, 2011

PYXIS INNOVATIONS INC.

By: /s/ Kim S. Mitchell
Kim S. Mitchell, Assistant
Secretary

Dated: November 10, 2011

ALTICOR INC.

By: /s/ Kim S. Mitchell
Kim S. Mitchell, Assistant
Secretary

Dated: November 10, 2011

SOLSTICE HOLDINGS INC.

By: /s/ Kim S. Mitchell
Kim S. Mitchell, Assistant
Secretary

Dated: November 10, 2011

ALTICOR GLOBAL HOLDINGS
INC.

By: /s/ Kim S. Mitchell
Kim S. Mitchell, Assistant
Secretary