DELL INC
Form 10-Q
October 30, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended August 3, 2007

or

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

For the transition period from to .

Commission file number: 0-17017

Dell Inc.
(Exact name of registrant as specified in its charter)

Delaware	**74-2487834**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Dell Way
Round Rock, Texas 78682
(Address of Principal Executive Offices) (Zip Code)

(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 þ No o

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 þ Accelerated filer o Non-accelerated filer o

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

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

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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.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DELL INC.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (in millions)

	August 3, 2007 (unaudited)	February 2, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,204	$ 9,546
Short-term investments	658	752
Accounts receivable, net	5,296	4,622
Financing receivables, net	1,531	1,530
Inventories	973	660
Other	2,552	2,829
Total current assets	22,214	19,939
Property, plant, and equipment, net	2,608	2,409
Investments	1,960	2,147
Long-term financing receivables, net	375	323
Other non-current assets	897	817
Total assets	$ 28,054	$ 25,635
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	$ 328	$ 188
Accounts payable	10,578	10,430
Accrued and other	6,160	7,173
Total current liabilities	17,066	17,791
Long-term debt	378	569
Other non-current liabilities	4,566	2,836
Total liabilities	22,010	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)	116	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	10,313	10,107
Treasury stock at cost: 606 and 606 shares, respectively	(21,033)	(21,033)
Retained earnings	16,754	15,282
Accumulated other comprehensive loss	(106)	(28)
Total stockholders equity	5,928	4,328
Total liabilities and equity	$ 28,054	$ 25,635

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 August 3, 2007	Three Months Ended August 4, 2006	Six Months Ended August 3, 2007	Six Months Ended August 4, 2006
Net revenue	$ 14,776	$ 14,211	$ 29,498	$ 28,531
Cost of net revenue	11,825	12,073	23,709	23,885
Gross margin	2,951	2,138	5,789	4,646
Operating expenses:				
Selling, general, and administrative	1,894	1,469	3,657	2,883
Research, development, and engineering	155	125	297	254
Total operating expenses	2,049	1,594	3,954	3,137
Operating income	902	544	1,835	1,509
Investment and other income, net	96	50	174	104
Income before income taxes	998	594	2,009	1,613
Income tax provision	252	114	507	357
Net income	$ 746	$ 480	$ 1,502	$ 1,256
Earnings per common share:				
Basic	$ 0.33	$ 0.21	$ 0.67	$ 0.55
Diluted	$ 0.33	$ 0.21	$ 0.66	$ 0.55
Weighted-average shares outstanding:				
Basic	2,237	2,264	2,236	2,280
Diluted	2,264	2,278	2,259	2,298

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)

	Six Months Ended	
	August 3, 2007	**August 4, 2006**
Cash flows from operating activities:		
Net income	$ 1,502	$ 1,256
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	271	225
Stock-based compensation	301	217
Excess tax benefits from stock-based compensation	(12)	(53)
Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies	31	19
Other	28	58
Changes in:		
Operating working capital	(1,732)	3
Non-current assets and liabilities	1,365	87
Net cash provided by operating activities	1,754	1,812
Cash flows from investing activities:		
Investments:		
Purchases	(1,765)	(5,917)
Maturities and sales	2,127	6,745
Capital expenditures	(464)	(386)
Acquisition of business, net of cash received	(19)	(97)
Net cash (used in) provided by investing activities	(121)	345
Cash flows from financing activities:		
Repurchase of common stock		(2,691)
Issuance of common stock under benefit plans	21	188
Excess tax benefits from stock-based compensation	12	53
Issuance of commercial paper, net	(40)	
Other	(9)	(20)
Net cash used in financing activities	(16)	(2,470)
Effect of exchange rate changes on cash and cash equivalents	41	54
Net increase (decrease) in cash and cash equivalents	1,658	(259)
Cash and cash equivalents at beginning of period	9,546	7,054
Cash and cash equivalents at end of period	$ 11,204	$ 6,795

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

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DELL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 Basis of Presentation

Basis of Presentation The accompanying condensed consolidated financial statements of Dell Inc. (Dell) should be read in conjunction with the consolidated financial statements and accompanying notes filed with the U.S. Securities and Exchange Commission (SEC) in Dell s Annual Report on Form 10-K for the fiscal year ended 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 August 3, 2007 and February 2, 2007; the results of its operations for the three and six month periods ended August 3, 2007 and August 4, 2006; and its cash flows for the six month periods ended August 3, 2007 and August 4, 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.

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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.

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

	August 3, 2007	February 2, 2007
	(in millions)	
Inventories:		
Production materials	$ 632	$ 361
Work-in-process	71	61
Finished goods	270	238
Inventories	$ 973	$ 660

The significant increase in production materials inventory from February 2, 2007 to August 3, 2007 is primarily due to strategic materials purchases during second quarter of Fiscal 2008.

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 215 million and 305 million shares during the second quarter of Fiscal 2008 and Fiscal 2007, respectively, and 250 million and 257 million shares during the six month periods ended August 3, 2007 and August 4, 2006, respectively. Additionally, shares held by a subsidiary are considered issued but not outstanding, and are excluded from the calculation of basic earnings per share.

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DELL INC.

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

The following table sets forth the computation of basic and diluted earnings per share for the three and six month periods ended August 3, 2007 and August 4, 2006:

	Three Months Ended		Six Months Ended	
	August 3, 2007	August 4, 2006	August 3, 2007	August 4, 2006
	(in millions, except per share amounts)			
Numerator:				
Net income	$ 746	$ 480	$ 1,502	$ 1,256
Denominator:				
Weighted-average shares outstanding:				
Basic	2,237	2,264	2,236	2,280
Effect of dilutive options, restricted stock units, restricted stock, and other	27	14	23	18
Diluted	2,264	2,278	2,259	2,298
Earnings per common share:				
Basic	$ 0.33	$ 0.21	$ 0.67	$ 0.55
Diluted	$ 0.33	$ 0.21	$ 0.66	$ 0.55

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 and six month periods ended August 3, 2007 and August 4, 2006:

	Three Months Ended		Six Months Ended	
	August 3, 2007	August 4, 2006	August 3, 2007	August 4, 2006
	(in millions)			
Comprehensive income:				

Net income	$ 746	$ 480	$ 1,502	$ 1,256
Unrealized gains (losses) on foreign currency hedging instruments, net	8	64	(74)	(44)
Unrealized gains on marketable securities, net	3	16	15	1
Valuation of retained interests in securitized assets[(a)]		4	(23)	6
Foreign currency translation adjustments	3	(2)	4	(6)
Comprehensive income	$ 760	$ 562	$ 1,424	$ 1,213

(a) In the first quarter of Fiscal 2008 Dell adopted SFAS 155 and, as a result, all gains and losses are recognized in the Statement of Income immediately and are no longer included in accumulated other comprehensive income. The impact to the first quarter of Fiscal 2008 is to recognize the unrealized amount as of February 2, 2007 as an adjustment to retained earnings at that date.

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DELL INC.

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

NOTE 5   Benefit Plans

Description of the Plans

Employee Stock Purchase Plan   Dell has a shareholder approved employee stock purchase plan (ESPP) that permits substantially all employees to purchase shares of Dell s common stock. Effective July 1, 2005, participating employees were permitted to purchase common stock through payroll deductions at the end of each three-month participation period at a purchase price equal to 85% of the fair market value of the common stock at the end of the participation period.

Employee Stock Plans   Dell has the following four employee stock plans (collectively referred to as the Stock Plans) under which options, restricted stock, and restricted stock units were outstanding at August 3, 2007:

The Dell Computer Corporation 1989 Stock Option Plan (the 1989 Option Plan)

The Dell Computer Corporation Incentive Plan (the 1994 Incentive Plan)

The Dell Computer Corporation 1998 Broad-Based Stock Option Plan (the 1998 Broad-Based Plan)

The Dell Computer Corporation 2002 Long-Term Incentive Plan (the 2002 Incentive Plan)

The Stock Plans are administered by the Leadership Development and Compensation Committee of Dell s Board of Directors. The 1989 Option Plan, the 1994 Incentive Plan, and the 1998 Broad-Based Plan have been terminated (except for options previously granted under those plans that are still outstanding). Consequently, awards are currently only being granted under the 2002 Incentive Plan.

The 2002 Incentive Plan provides for the granting of stock-based incentive awards to Dell s employees, non-employee directors, and certain consultants and advisors to Dell. Awards may be incentive stock options within the meaning of Section 422 of the Internal Revenue Code, nonqualified stock options, restricted stock, or restricted stock units.

Stock-Based Compensation   Effective February 4, 2006, Dell adopted the fair value recognition provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)), using the modified prospective transition method which does not require revising the presentation in the prior periods for stock-based compensation. Under this transition method, stock-based compensation expense for the first quarters of Fiscal 2008 and Fiscal 2007 includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested at February 4, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, *Accounting for Stock-Based Compensation* (SFAS 123). Stock-based compensation expense for all stock-based compensation awards granted after February 3, 2006 is based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R). Dell recognizes this compensation expense net of an estimated forfeiture rate over the requisite service period of the award, which has generally been the vesting term of three-to-five years for stock options and three-to-seven years for restricted stock awards. During the three and six month periods ended August 3, 2007, grants of stock options and restricted stock unit awards generally had three-year vesting periods.

Temporary Suspension of Option Exercises, Vesting of Restricted Stock Units, and ESPP Purchases As a result of Dell s inability to timely file its Annual Report on Form 10-K for Fiscal 2007, Dell suspended the exercise of employee stock options, the vesting of restricted stock units, and the purchase of shares under the ESPP. Dell expects to resume the exercise of employee stock options by employees, the vesting of restricted stock units, and the purchase of shares under the ESPP when it is again current in its reporting obligations under the Securities Exchange Act of 1934.

DELL INC.

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

Dell agreed to pay cash to certain current and former employees who held in-the-money stock options (options that have an exercise price less than the current stock market price) that expired during the period of unexercisability. Within 45 days after Dell files its Annual Report on Form 10-K for Fiscal 2007, Dell will make payments relating to in-the-money stock options that expired in the second and third quarters of Fiscal 2008, which are expected to total approximately $113 million, of which $102 million has been expensed as compensation in the second quarter of Fiscal 2008 ($16 million is included in cost of net revenue and $86 million in operating expenses). The remaining $11 million will be expensed in the third quarter of Fiscal 2008. Dell will not continue to pay cash for expired in-the-money stock options once the options again become exercisable.

General Information

Expense Information under SFAS 123(R)

For the three and six month periods ended August 3, 2007 and August 4, 2006, stock-based compensation expense, net of income taxes, was allocated as follows:

	Three Months Ended		Six Months Ended	
	August 3, 2007	August 4, 2006	August 3, 2007	August 4, 2006
	(in millions)			
Stock-based compensation expense:				
Cost of net revenue	$ 30	$ 18	$ 44	$ 36
Operating expenses	174	86	257	181
Stock-based compensation expense before taxes	204	104	301	217
Income tax benefit	(57)	(31)	(85)	(65)
Stock-based compensation expense	$ 147	$ 73	$ 216	$ 152

Stock-based compensation expense in the table above includes $102 million of expected payments for expiring stock options previously discussed. Stock-based compensation expense recognized for the second quarter and first six months of Fiscal 2008 and Fiscal 2007 is based on awards expected to vest, reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Valuation Information

SFAS 123(R) requires the use of a valuation model to calculate the fair value of stock option awards. Dell has elected to use the Black-Scholes option pricing model, which incorporates various assumptions including volatility, expected term, and risk-free interest rates. The volatility is based on a blend of implied and historical volatility of Dell s common stock over the most recent period commensurate with the estimated expected term of Dell s stock options. Dell uses this blend of implied and historical volatility, as well as other economic data, because management believes such volatility is more representative of prospective trends. The expected term of an award is based on historical experience and on the terms and conditions of the stock awards granted to employees. The dividend yield of zero is based on the fact that Dell has never paid cash dividends and has no present intention to pay cash dividends.

DELL INC.

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

The weighted-average fair value of stock options was determined utilizing the assumptions in the following table:

	Three Months Ended		Six Months Ended	
	August 3, 2007	August 4, 2006	August 3, 2007	August 4, 2006
Expected term	3.4 years	3.2 years	3.5 years	3.2 years
Risk-free interest rate (U.S. Government Treasury Note)	4.7%	5.0%	4.6%	4.8%
Volatility	25%	27%	25%	27%
Dividends	0%	0%	0%	0%

Stock Option Activity The following table summarizes stock option activity for the Stock Plans during the six-month period ended August 3, 2007:

	Number of Options (in millions)	Weighted-Average Exercise Price (per share)	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Options outstanding February 2, 2007	314	$ 32.16		
Granted	8	23.38		
Exercised (prior to April 4 suspension date)	(2)	9.63		
Forfeited	(3)	27.26		
Cancelled/expired	(33)	30.80		
Options outstanding August 3, 2007	284	$ 32.28		
Vested and expected to vest (net of estimated forfeitures) August 3, 2007 (a)	276	$ 32.52	4.3	$ 316
Exercisable August 3, 2007 (a)	259	$ 32.95	4.6	$ 281

(a) For options vested and expected to vest and options exercisable, the aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between Dell s closing stock price on August 3, 2007 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had the holders exercised their options on August 3, 2007. The intrinsic value changes based on changes in the fair market value of Dell s common stock.

Other information pertaining to stock options for the three and six month periods ended August 3, 2007 and August 4, 2006 is as follows:

	Three Months Ended		Six Months Ended	
	August 3, 2007	August 4, 2006	August 3, 2007	August 4, 2006
	(in millions, except per option data)			
Weighted-average grant date fair value of stock options granted per option	$ 6.64	$ 6.46	$ 6.02	$ 7.24
Total intrinsic value of options exercised[a]	$	$ 61	$ 27	$ 134

(a) The total intrinsic value of options exercised represents the total pre-tax intrinsic value (the difference between the stock price at exercise and the exercise price, multiplied by the number of options exercised) that was received by the option holders who exercised their options during the six-month period ended August 3, 2007.

At August 3, 2007, $109 million of total unrecognized stock-based compensation expense, net of estimated forfeitures, related to stock options is expected to be recognized over a weighted-average period of approximately 2.1 years.

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DELL INC.

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

Non-vested Restricted Stock Activity Non-vested restricted stock awards at August 3, 2007 and activities during the six-month period ended August 3, 2007 were as follows:

	Number of Shares (in millions)	Weighted-Average Grant Date Fair Value (per share)
Non-vested restricted stock February 2, 2007	17	$ 28.76
Granted	23	22.35
Vested	(3)	29.46
Forfeited	(2)	26.30
Non-vested restricted stock August 3, 2007	35	$ 24.75

For the three and six month periods ended August 3, 2007, the weighted-average fair value of restricted stock awards granted during the period was $19.43 and $22.35 per share, respectively. For the three and six month periods ended August 4, 2006, the weighted-average grant-date fair value of restricted stock awards granted during the period was $25.91 and $29.12 per share, respectively. At August 3, 2007, $690 million of unrecognized stock-based compensation expense, net of estimated forfeitures, related to non-vested restricted stock awards is expected to be recognized over a weighted-average period of approximately 2.0 years.

NOTE 6 Financial Services

Joint Venture Agreement

Dell offers various customer financial services for its business and consumer customers in the U.S. through DFS, a joint venture with CIT. Loan and lease financing through DFS is one of many sources of financing that Dell s customers may select. Dell recognized revenue from the sale of products financed through DFS of $1.3 billion and $1.5 billion during the three month periods ended August 3, 2007 and August 4, 2006, respectively, and $2.7 billion and $3.0 billion for the six month periods ended August 3, 2007 and August 4, 2006, respectively.

On September 8, 2004, Dell and CIT executed an agreement that extended the term of the joint venture to January 29, 2010, and modified certain terms of the relationship. In accordance with the extension agreement, net income and losses generated by DFS are currently allocated 70% to Dell and 30% to CIT. At August 3, 2007, and February 2, 2007, CIT s equity ownership in the net assets of DFS was $44 million and $33 million, respectively, which is recorded as minority interest and included in other non-current liabilities.

The extension agreement provides Dell with the option to purchase CIT s 30% interest in DFS in February 2008, for a purchase price ranging from approximately $100 million to $345 million. Dell currently expects that the purchase price will likely be towards the upper end of that range. If Dell does not exercise this purchase option, Dell is obligated to purchase CIT s 30% interest upon the occurrence of certain termination events, or upon the expiration of the joint venture on January 29, 2010.

Dell is dependent upon DFS to facilitate financing for a significant number of customers who elect to finance products sold by Dell. Dell also purchases loan and lease receivables facilitated by DFS on substantially the same terms and conditions as CIT. Dell s purchase of these assets allows Dell to retain a greater portion of the assets future earnings. The percentage of transactions that Dell will purchase under the extension agreement is expected to be approximately 50% in Fiscal 2008.

DELL INC.

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

DFS is a full service financial services entity; key activities include the origination, collection, and servicing of financing receivables related to the purchase of Dell products. While DFS services CIT funded receivables, Dell s obligation related to the performance of these receivables is limited to the cash funded reserves established at the time of funding.

Financing Receivables

The following table summarizes the components of Dell s financing receivables, net of the allowance for estimated uncollectible amounts:

	August 3, 2007	February 2, 2007
	(in millions)	
Financing receivables, net:		
Customer receivables:		
Revolving loans, net	$ 787	$ 771
Leases and loans, net	654	627
Customer receivables, net	1,441	1,398
Residual interests	294	296
Retained interest	171	159
Financing receivables, net	$ 1,906	$ 1,853
Short-term	$ 1,531	$ 1,530
Long-term	375	323
Financing receivables, net	$ 1,906	$ 1,853

Financing receivables primarily consist of revolving loans and fixed-term leases and loans resulting from the sale of Dell products. If customers desire revolving or term loan financing, Dell sells equipment directly to customers who, in turn, enter into agreements to finance their purchases. For customers who desire lease financing, Dell sells the equipment to DFS, and DFS enters into direct financing lease arrangements with the customers.

Customer receivables are presented net of an allowance for uncollectible accounts. The allowance is based on factors including historical trends and the composition and credit quality of the customer receivables. The composition and credit quality varies from investment grade commercial customers to subprime consumers. Customer receivables are charged to the allowance at the earlier of when an account is deemed to be uncollectible or when the account is 180 days delinquent. Recoveries on customer receivables previously charged off as uncollectible are adjusted to the allowance for uncollectible accounts. The following is a description of the components of financing receivables:

- 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. 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, no interest is charged. These special programs generally range from 3 to 18 months and have an average original term of approximately 13 months. Revolving loans bear interest at a variable annual percentage rate that is tied to the prime rate.

- Leases with business customers generally have fixed terms of two to three years. Future maturities of minimum lease payments at August 3, 2007 are as follows: 2008: $68 million; 2009: $83 million; 2010: $51 million; 2011: $12 million; and 2012: $2 million. Fixed-term loans are also offered to qualified small businesses for the purchase of products sold by Dell.

DELL INC.

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

Dell retains a residual interest in the leased equipment. The amount of the residual interest is established at the inception of the lease based upon estimates of the value of the equipment at the end of the lease term using historical studies, industry data, and future value-at-risk demand valuation methods. On a periodic basis, Dell assesses the carrying amount of its recorded residual values for impairment. Anticipated declines in specific future residual values that are considered to be other-than-temporary are recorded in current earnings.

Retained interests represent the residual beneficial interest Dell retains in certain pools of securitized finance receivables. Retained interests are stated at the present value of the estimated net beneficial cash flows after payment of all senior interests. In estimating the value of retained interests, Dell makes a variety of financial assumptions, including pool credit losses, payment rates, and discount rates. These assumptions are supported by both Dell s historical experience and anticipated trends relative to the particular receivable pool. Dell reviews its investments in retained interests periodically for impairment, based on estimated fair value. Any resulting losses representing the excess of carrying value over estimated fair value that are other-than-temporary are recorded in earnings. Upon the adoption of SFAS 155 in the first quarter of Fiscal 2008, Dell began recording unrealized gains or losses in its Condensed Consolidated Statements of Income.

Asset Securitization

During the first six months of Fiscal 2008 and Fiscal 2007, Dell sold $557 million and $514 million, respectively, of fixed-term leases and loans and revolving loans to unconsolidated qualifying special purpose entities. The qualifying special purpose entities are bankruptcy remote legal entities with assets and liabilities separate from those of Dell. The sole purpose of the qualifying special purpose entities is to facilitate the funding of finance receivables in the capital markets. Dell determines the amount of receivables to securitize based on its funding requirements in conjunction with specific selection criteria designed for the transaction. The qualifying special purpose entities have entered into financing arrangements with three multi-seller conduits that, in turn, issue asset-backed debt securities in the capital markets. Transfers of financing receivables are recorded in accordance with the provisions of SFAS 140.

Dell retains the right to receive collections on securitized receivables in excess of amounts needed to pay interest and principal as well as other required fees. Upon the sale of the financing receivables, Dell records the present value of the excess cash flows as a retained interest, which typically results in a gain that ranges from 2% to 4% of the customer receivables sold. Dell services the securitized contracts and earns a servicing fee. Dell s securitization transactions generally do not result in servicing assets and liabilities, as the contractual fees are adequate compensation in relation to the associated servicing cost.

Dell s securitization program contains structural features that could prevent further funding if the credit losses or delinquencies on the pool of sold receivables exceed specified levels. These structural features are within normal industry practice and are similar to comparable securitization programs in the marketplace. Dell does not currently expect that any of these features will have a material adverse impact on its ability to securitize financing receivables.

DELL INC.

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

NOTE 7 Warranty Liability and Related Deferred Revenue

Revenue from extended warranty and service contracts, for which Dell is obligated to perform, is recorded as deferred revenue and subsequently recognized over the term of the contract or when the service is completed. Dell records warranty liabilities at the time of sale for the estimated costs that may be incurred under its limited warranty. Changes in Dell s deferred revenue for extended warranties and warranty liability for standard warranties, which are included in other current and non-current liabilities on Dell s Condensed Consolidated Statements of Financial Position, are presented in the following tables:

	Three Months Ended		Six Months Ended	
	August 3, 2007	August 4, 2006	August 3, 2007	August 4, 2006
	(in millions)			
Deferred revenue:				
Deferred revenue at beginning of period	$ 4,408	$ 3,907	$ 4,221	$ 3,707
Revenue deferred for new extended warranty and service contracts sold[(a)]	923	814	1,747	1,573
Revenue recognized[(a)]	(669)	(697)	(1,306)	(1,256)
Deferred revenue at end of period	$ 4,662	$ 4,024	$ 4,662	$ 4,024
Current portion	$ 2,041	$ 2,055	$ 2,041	$ 2,055
Non-current portion	2,621	1,969	2,621	1,969
Deferred revenue at end of period	$ 4,662	$ 4,024	$ 4,662	$ 4,024

	Three Months Ended		Six Months Ended	
	August 3, 2007	August 4, 2006	August 3, 2007	August 4, 2006
	(in millions)			
Warranty liability:				
Warranty liability at beginning of period	$ 889	$ 909	$ 958	$ 951
Costs accrued for new warranty contracts and changes in estimates for pre-existing warranties[(b)]	308	330	560	575
Service obligations honored[(a)]	(283)	(310)	(604)	(597)
Warranty liability at end of period	$ 914	$ 929	$ 914	$ 929

Current portion	$	643	$	665	$	643	$	665
Non-current portion		271		264		271		264
Warranty liability at end of period	$	914	$	929	$	914	$	929

(a) Prior period amounts have been changed to reflect the current year presentation of service obligations honored. There is no impact to the Condensed Consolidated Statements of Financial Position or Condensed Consolidated Statements of Income as a result of this change.

(b) Changes in cost estimates related to pre-existing warranties are aggregated with accruals for new warranty contracts. Dell s warranty liability process does not differentiate between estimates made for pre-existing warranties and new warranty obligations.

On August 14, 2006, Dell announced a voluntary recall of approximately 4.2 million Dell-branded lithium-ion batteries with cells manufactured by a supplier. From April 1, 2004 through July 18, 2006, Dell sold or provided these batteries individually or as part of a service replacement with notebook computers. This recall has not had a material impact on Dell s results of operations, financial position, or cash flows, as Dell was indemnified by the manufacturer of these batteries.

DELL INC.

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

NOTE 8 Commitments and Contingencies

DFS Purchase Commitment Pursuant to the joint venture agreement between Dell and CIT, Dell has an obligation to purchase CIT s 30% interest in DFS at the expiration of the joint venture on January 29, 2010, for a purchase price ranging from approximately $100 million to $345 million. Dell currently expects that the purchase price will likely be towards the upper end of the range. See Note 6 of Notes to Condensed Consolidated Financial Statements for further discussion of the DFS purchase commitment.

Restricted Cash Pursuant to an agreement between DFS and CIT, Dell is required to maintain escrow cash accounts that are held as recourse reserves for credit losses, performance fee deposits related to Dell s private label credit card, and deferred servicing revenue. Restricted cash specific to the consolidation of DFS in the amount of $357 million and $416 million is included in other current assets on Dell s Consolidated Statements of Financial Position at August 3, 2007 and February 2, 2007, respectively.

Legal Matters Dell is involved in various claims, suits, investigations, and legal proceedings that arise from time to time in the ordinary course of its business. As required by SFAS No. 5, *Accounting for Contingencies* (SFAS 5), Dell accrues a liability when it believes that it is both probable that a liability has been incurred and that it can reasonably estimate the amount of the loss. The following is a discussion of Dell s significant legal matters.

Investigations and Related Litigation In August 2005, the SEC initiated an inquiry into certain of Dell s accounting and financial reporting matters and requested that Dell provide certain documents. The SEC expanded that inquiry in June 2006 and entered a formal order of investigation in October 2006. The SEC s requests for information were joined by a similar request from the United States Attorney for the Southern District of New York (SDNY), who subpoenaed documents related to Dell s financial reporting from and after Fiscal 2002. In August 2006, because of potential issues identified in the course of responding to the SEC s requests for information, Dell s Audit Committee, on the recommendation of management and in consultation with PricewaterhouseCoopers LLP, Dell s independent registered public accounting firm, initiated an independent investigation, which was recently completed. Although the Audit Committee investigation has been completed, the investigations being conducted by the SEC and the SDNY are ongoing. Dell continues to cooperate with the SEC and the SDNY.

Dell and several of its current and former directors and officers are parties to securities, Employee Retirement Income Security Act of 1974 (ERISA), and shareholder derivative lawsuits all arising out of the same events and facts. Four putative securities class actions that were filed in the Western District of Texas, Austin Division, against Dell and certain of its current and former officers have been consolidated, as *In re Dell Inc. Securities Litigation*, and a lead plaintiff has been appointed by the court. The lead plaintiff has asserted claims under sections 10(b), 20(a), and 20A of the Securities Exchange Act of 1934 based on alleged false and misleading disclosures or omissions regarding Dell s financial statements, governmental investigations, known battery problems, business model, and insiders sales of its securities. This action also includes Dell s independent registered public accounting firm, PricewaterhouseCoopers LLP, as a defendant. Four other putative class actions that were also filed in the Western District by purported participants in the Dell Inc. 401(k) Plan have been consolidated, as *In re Dell Inc. ERISA Litigation*, and lead plaintiffs have been appointed by the court. The lead plaintiffs have asserted claims under ERISA based on allegations that Dell, certain current officers, and certain current and former directors imprudently invested and managed participants funds and failed to disclose information regarding its stock held in the 401(k) Plan. In addition, seven shareholder derivative lawsuits that were filed in three separate jurisdictions (the Western District of Texas, Austin Division; the Delaware Chancery Court; and the state district court in Travis County, Texas) have been consolidated into three actions, one in each of the respective jurisdictions, as *In re Dell Inc. Derivative Litigation*, and name various current and former officers and directors as defendants and Dell as a nominal defendant. On

DELL INC.

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

October 8, 2007, the shareholder derivative lawsuit filed in the Western District of Texas was dismissed without prejudice by the court. The Travis County, Texas action has been transferred to the state district court in Williamson County, Texas. The shareholder derivative lawsuits assert claims derivatively on behalf of Dell under state law, including breaches of fiduciary duties. Finally, one purported shareholder has filed an action against Dell in Delaware Chancery Court under Section 220 of the Delaware General Corporation Law, *Baltimore County Employees Retirement System v. Dell Inc.*, seeking inspection of certain of Dell s books and records related to the internal investigation and government investigations. Dell intends to defend all of these lawsuits vigorously.

Copyright Levies Proceedings against the IT industry in Germany seek to impose levies on equipment, such as personal computers, multifunction devices, and printers that facilitate making private copies of copyrighted materials. The total levies due, if imposed, would be based on the number of products sold and the per-product amounts of the levies, which vary. Dell, along with other companies and various industry associations are opposing these levies and instead are advocating compensation to rights holders through digital rights management systems.

There are currently three levy cases involving other equipment manufacturers pending before the German Federal Supreme Court. Adverse decisions in these cases could ultimately impact Dell. The cases involve personal computers, printers, and multifunctional devices. The equipment manufacturers in these cases recently lost in the lower courts and have appealed. The amount allowed by the lower courts with respect to PCs is 12 per personal computer sold for reprographic copying capabilities. The amounts claimed with respect to printers and multifunctional devices depend on speed and color and vary between 10 and 300 for printers and between 38 and 600 for multifunctional devices. On December 29, 2005, Zentralstelle Für private Überspielungrechte (ZPÜ), a joint association of various German collection societies, instituted arbitration proceedings against Dell s German subsidiary before the Arbitration Body in Munich. ZPÜ claims a levy of 18.4 per PC that Dell sold in Germany from January 1, 2002 through December 31, 2005. On July 31, 2007, the Arbitration Body recommended a levy of 15 on each PC sold during that period, for audio and visual copying capabilities. Dell and ZPÜ rejected the recommendation and Dell expects that the matter will proceed to court. Dell will continue to defend this claim vigorously.

Lucent v. Dell In February 2003, Lucent Technologies, Inc. filed a lawsuit against Dell in the United States District Court for Delaware, and the lawsuit was subsequently transferred to the United States District Court for the Southern District of California. The lawsuit alleges that Dell infringed 12 patents owned by Lucent and seeks monetary damages and injunctive relief. In April 2003, Microsoft Corporation filed a declaratory judgment action against Lucent in the United States District Court for the Southern District of California, asserting that Microsoft products do not infringe patents held by Lucent, including 10 of the 12 patents at issue in the lawsuit involving Dell and Microsoft. These actions were consolidated for discovery purposes with a previous suit that Lucent filed against Gateway, Inc. In September 2005, the court granted a summary judgment of invalidity with respect to one of the Lucent patents asserted against Dell. In addition, in decisions made through May 2007, the court granted summary judgment of non-infringement with respect to five more of the Lucent patents asserted against Dell. The court has ordered invalidity briefing with regard to other patents at issue in view of the April 30, 2007, U.S. Supreme Court decision in *KSR v. Teleflex*. Fact and expert discovery has closed, and the three actions have been consolidated. Trial is scheduled to begin in February 2008. Dell is defending these claims vigorously. Separately, Dell has filed a lawsuit against Lucent in the United States District Court for the Eastern District of Texas, alleging that Lucent infringes two patents owned by Dell and seeking monetary damages and injunctive relief. That litigation is pending and discovery is proceeding.

DELL INC.

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

Sales Tax Claims Several state and local taxing jurisdictions have asserted claims against Dell Catalog Sales L.P. (DCSLP), an indirect wholly-owned subsidiary of Dell, alleging that DCSLP had an obligation to collect tax on sales made into those jurisdictions because of its alleged nexus, or physical presence, in those jurisdictions. During the first and second quarter of Fiscal 2008, Dell settled suits filed by the State of Louisiana and the Secretary of the Louisiana Department of Revenue and Taxation in the 19th Judicial District Court of the State of Louisiana, and by two Louisiana parishes, Orleans Parish and Jefferson Parish, in the State of Louisiana 24th Judicial District Court. Dell also settled similar claims made by a number of other Louisiana parishes and by the State of Massachusetts. These settlement amounts did not have a material adverse effect on Dell s financial condition, results of operations, or cash flows. While there are ongoing claims by certain other state and local taxing authorities, DCSLP disputes the allegation that it had nexus in any of these other jurisdictions during the periods in issue, and is defending the claims vigorously. Dell does not expect that the outcome of these other claims, individually or collectively, will have a material adverse effect on its financial condition, results of operations, or cash flows.

Income Tax Dell is currently under audit in various jurisdictions, including the United States. The tax periods open to examination by the major taxing jurisdictions to which Dell is subject include Fiscal 1999 through Fiscal 2007. Dell does not anticipate a significant change to the total amount of unrecognized benefits within the next 12 months.

Dell is involved in various other claims, suits, investigations, and legal proceedings that arise from time to time in the ordinary course of its business. Although Dell does not expect that the outcome in any of these other legal proceedings, individually or collectively, will have a material adverse effect on its financial condition or results of operations, litigation is inherently unpredictable. Therefore, Dell could incur judgments or enter into settlements of claims that could adversely affect its operating results or cash flows in a particular period.

NOTE 9 Segment Information

Dell conducts operations worldwide and is managed in three geographic regions: the Americas; Europe, Middle East, and Africa (EMEA); and Asia Pacific-Japan (APJ). The Americas region, which is based in Round Rock, Texas, covers the U.S., Canada, and Latin America. Within the Americas, Dell is further segmented into Business and U.S. Consumer. The Americas Business (Business) segment includes sales to corporate, government, healthcare, education, and small and medium business customers, while the U.S. Consumer segment includes sales primarily to individual consumers. The EMEA segment, based in Bracknell, England, covers Europe, the Middle East, and Africa. The APJ region, based in Singapore, covers the Asian countries of the Pacific Rim as well as Australia, New Zealand, and India.

Corporate expenses are included in Dell s measure of segment operating income for management reporting purposes; however, with the adoption of SFAS 123(R), beginning in Fiscal 2007 stock-based compensation expense is not allocated to Dell s reportable segments. The following table presents net revenue by Dell s reportable segments as well as a reconciliation of consolidated segment operating

DELL INC.

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

income to Dell s consolidated operating income for the three and six month periods ended August 3, 2007 and August 4, 2006:

	Three Months Ended		Six Months Ended	
	August 3, 2007	August 4, 2006	August 3, 2007	August 4, 2006
	(in millions)			
Net revenue:				
Americas:				
Business	$ 7,914	$ 7,502	$ 15,426	$ 14,612
U.S. Consumer	1,301	1,787	2,736	3,698
Americas	9,215	9,289	18,162	18,310
EMEA	3,488	3,049	7,253	6,451
APJ	2,073	1,873	4,083	3,770
Net revenue	$ 14,776	$ 14,211	$ 29,498	$ 28,531
Consolidated operating income:				
Americas:				
Business	$ 755	$ 546	$ 1,406	$ 1,219
U.S. Consumer	(9)	15	2	68
Americas	746	561	1,408	1,287
EMEA	206	5	484	202
APJ	154	82	244	237
Consolidated segment operating income	1,106	648	2,136	1,726
Stock-based compensation expense	(204)	(104)	(301)	(217)
Consolidated operating income	$ 902	$ 544	$ 1,835	$ 1,509

NOTE 10 Debt

Commercial Paper

On June 1, 2006, Dell implemented a $1.0 billion commercial paper program with a supporting $1.0 billion senior unsecured revolving credit facility. This program allows Dell to obtain favorable short-term borrowing rates. Dell pays facility commitment and letter of credit participation fees at rates based upon Dell s credit rating. Unless extended, this facility expires on June 1, 2011, at which time any outstanding amounts under the facility will be due and payable. The facility requires 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. Amounts outstanding under the facility may be accelerated for typical defaults, including failure to pay principal or interest, breaches of covenants, non-payment of judgments or debt obligation in excess of $200 million, occurrence of a change of control, and certain bankruptcy events.

At August 3, 2007, $60 million was outstanding under the commercial paper program and due within 90 days. The weighted-average interest rate on these outstanding short-term borrowings was 5.3%. There were no outstanding advances under the commercial paper program at October 26, 2007. Dell uses the proceeds of the program and facility for general corporate purposes, including funding DFS growth.

DELL INC.

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

DFS Credit Facilities

DFS maintains credit facilities with CIT that provide a maximum capacity of $750 million to fund leased equipment. These borrowings are secured by DFS assets and contain certain customary restrictive covenants. Interest on the outstanding loans is paid quarterly and calculated based on an average of the two- and three-year U.S. Treasury Notes plus 4.45%. DFS is required to make quarterly principal payments if the value of the leased equipment securing the loans is less than the outstanding principal balance. At August 3, 2007 and February 2, 2007, outstanding advances from CIT totaled $118 million and $122 million, respectively, of which $65 million and $87 million, respectively, is included in short-term borrowings and $53 million and $35 million, respectively, is included in long-term debt on Dell s Condensed Consolidated Statements of Financial Position. The credit facilities expire on the earlier of (i) the dissolution of DFS; (ii) the purchase of CIT s ownership interest in DFS; or (iii) the acceleration of the maturity of the debt by CIT arising from a default.

Long-Term Debt and Interest Rate Risk Management

In April 1998, Dell issued $200 million 6.55% fixed rate senior notes with the principal balance due April 15, 2008 (the Senior Notes) and $300 million 7.10% fixed rate senior debentures with the principal balance due April 15, 2028 (the Senior Debentures). Interest on the Senior Notes and Senior Debentures is paid semi-annually, on April 15 and October 15. The Senior Notes and Senior Debentures rank equally and are redeemable, in whole or in part, at the election of Dell for principal, any accrued interest, and a redemption premium based on the present value of interest to be paid over the term of the debt agreements. The Senior Notes and Senior Debentures generally contain no restrictive covenants, other than a limitation on liens on Dell s assets and a limitation on sale-leaseback transactions involving Dell property.

Dell s inability to timely file its periodic reports with the SEC constituted a technical breach of the covenants to which the Senior Notes and the Senior Debentures are subject. Those covenants specify that a Notice of Default must be issued, and Dell must have failed to cure the deficiency within 90 days of the notice, before the debt is callable by the holders. Because Dell has not received a Notice of Default, Dell is not in default of these debt covenants; therefore, the Senior Notes are classified as current liabilities and the Senior Debentures are classified as long-term liabilities at August 3, 2007. With the filing of its past due periodic reports with the SEC, Dell is no longer in breach of the covenants.

Concurrent with the issuance of the Senior Notes and Senior Debentures, Dell entered into interest rate swap agreements converting Dell s interest rate exposure from a fixed rate to a floating rate basis to better align the associated interest rate characteristics to its cash and investments portfolio. The interest rate swap agreements have an aggregate notional amount of $200 million maturing April 15, 2008 and $300 million maturing April 15, 2028. The floating rates are based on three-month London Interbank Offered Rates plus 0.4% and 0.8% for the Senior Notes and Senior Debentures, respectively. As a result of the interest rate swap agreements, Dell s effective interest rates for the Senior Notes and Senior Debentures were 5.9% and 6.3%, respectively, for the second quarter of Fiscal 2008, and 6.0% and 6.3%, respectively, for the first six months of Fiscal 2008.

The interest rate swap agreements are designated as fair value hedges. Although the Senior Notes and Senior Debentures allow for settlement before their stated maturity, such settlement would always be at an amount greater than the fair value of the Senior Notes and Senior Debentures. Accordingly, the Senior Notes and Senior Debentures are not considered to be pre-payable as defined by SFAS 133 and related interpretations. The changes in the fair value of the interest rate swaps are assessed in accordance with SFAS 133.

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

NOTE 11 Income Taxes

Dell adopted FIN 48 on February 3, 2007. FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. This Interpretation establishes a single model to address accounting for uncertain tax positions. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The cumulative effect of adopting FIN 48 was a $62 million increase in tax liabilities and a corresponding decrease to the February 2, 2007 stockholders equity balance of which $59 million related to retained earnings and $3 million related to additional paid in capital. Upon adoption, the unrecognized tax benefits totaled approximately $1.2 billion at February 2, 2007, including interest and penalties. This amount has been reduced by $69 million of related tax benefits for deductions associated with estimated transfer pricing and state income taxes. The net amount of $1.1 billion, if recognized, would favorably affect Dell s effective tax rate. In addition, consistent with the provisions of FIN 48, Dell changed the classification of $1.1 billion of income tax liabilities from current to non-current liabilities because payment of cash is not anticipated within one year of the balance sheet date. These non-current income tax liabilities are recorded in other non-current liabilities in the Consolidated Statements of Financial Position.

Interest and penalties related to income tax liabilities are included in income tax expense. The balance of accrued interest and penalties recorded in the Condensed Consolidated Statements of Financial Position at February 2, 2007 was $173 million.

NOTE 12 Redeemable Common Stock

Dell inadvertently failed to register with the SEC the sale of some shares under certain employee benefit plans. As a result, certain purchasers of common stock pursuant to those plans may have the right to rescind their purchases for an amount equal to the purchase price paid for the shares, plus interest from the date of purchase. At August 3, 2007, and February 2, 2007, Dell has classified approximately 5 million shares ($116 million) and 5 million shares ($111 million), respectively, that may be subject to the rescissionary rights outside stockholders equity, because the redemption features are not within the control of Dell. These shares have always been treated as outstanding for financial reporting purposes.

NOTE 13 Subsequent Events

On August 2, 2007, Dell announced the planned acquisition of ASAP Software, a leading software solutions and licensing services provider, and currently a subsidiary of Corporate Express. The acquisition will strengthen Dell s existing software business by integrating ASAP s complementary expertise in managing software licensing, purchasing, renewals, and compliance. The acquisition is anticipated to close during Dell s fourth quarter of Fiscal 2008.

On August 13, 2007, Dell completed its previously announced acquisition of ZING Systems, Inc., a consumer technology and services company that focuses on always-connected audio and entertainment devices. ZING Systems, Inc. will be integrated into Dell s Consumer Product Group and will be used to continue improving the entertainment experiences provided to customers.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SPECIAL NOTE: ***This section, Management s Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements based on our current expectations. Actual results in future periods may differ materially from those expressed or implied by those forward-looking statements because of a number of risks and uncertainties. For a discussion of risk factors affecting our business and prospects, see Part I Item 1A Risk Factors in our Annual Report on Form 10-K for the fiscal year ended February 2, 2007.***

All percentage amounts and ratios were calculated using the underlying data in thousands. Unless otherwise noted, all references to industry share and total industry growth data are for personal computers (including desktops, notebooks, and x86 servers), and are based on information provided by IDC Worldwide Quarterly PC Tracker, September 2007. Share data is for the calendar quarter and all our growth rates are on a fiscal year-over-year basis. Unless otherwise noted, all references to time periods refer to our fiscal periods.

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.

Overview

Our Company

As a leading technology company, we offer a broad range of product categories, including desktop computer systems, mobility products, servers, storage, software and peripherals, and services. We are the number one supplier of desktop and notebook systems in the United States, and the number two supplier worldwide. Our past performance has been the result of a persistent focus on delivering directly to our customers relevant technology and services at the best value.

Our business strategy is evolving. Historically we utilized our direct customer model and highly efficient manufacturing and logistics to lower the cost of technology for our customers. We are now simplifying information technology for our customers from point of sale to the usability of our products to the service solutions we sell. Using this strategy, we strive to provide the best possible customer experience by offering superior value; high-quality, relevant technology; customized systems; superior service and support; and differentiated products and services that are easy to buy and use. We also offer various financing alternatives, asset management services, and other customer financial services for business and consumer customers. To reach even more customers globally we have launched new distribution channels to reach commercial customers and individual consumers around the world.

Although the focus of our business strategy is selling directly to customers, we also utilize indirect sales channels when there is a business need. During Fiscal 2008, we began offering Dell Dimension[tm] desktop

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computers and Inspiron[tm] notebook computers in retail stores in the Americas and announced partnerships with retailers in the U.K, Japan, and China. These actions represent one of the first steps in our retail strategy, which will allow us to extend our model and reach customers that we have not been able to reach directly.

We manufacture most of the products we sell and have manufacturing locations worldwide to service our global customer base. Our build-to-order manufacturing process is designed to allow us to significantly reduce cost while simultaneously providing customers the ability to customize their product purchases. We also have relationships with third-party original equipment manufacturers that build some of our products (such as printers and projectors) to our specifications, and we are exploring the expanded use of original design manufacturing partnerships and manufacturing outsourcing relationships in order to deliver products faster and better serve our customers in certain markets.

Current Business Environment

We participate in a highly competitive industry that is subject to aggressive pricing and strong competitive pressures; however, we believe that our growth potential remains strong. In the U.S., rising energy prices, weakening real estate markets, and inflationary pressures may lead to slower economic growth, which may affect IT and consumer spending during the fourth quarter of Fiscal 2008. A slow down in the U.S. economy could adversely impact other regional markets. Economic conditions in our international markets, which are key to our expansion goals, are highlighted by growing economies in Central and Eastern Europe, expansion in Asia Pacific-Japan (APJ), and continued development in Latin America. Overall, expected industry growth is in line with prior year growth.

Second Quarter Performance

Share position	We shipped almost 10 million units, resulting in a worldwide PC share position of 16.1%, a decline of 3 percentage points year-over-year.
Net revenue	Revenue increased 4% year-over-year to $14.8 billion, with unit shipments up 1% year-over-year.
Operating income	Operating income was $902 million for the quarter, or 6.1% of revenue, as compared to $544 million or 3.8% of revenue for second quarter of Fiscal 2007.
Earnings per share	Earnings per share increased 56% to $0.33 for the current quarter compared to $0.21 for the second quarter of Fiscal 2007.

Results of Operations

The following table summarizes the results of our operations for the three and six month periods ended August 3, 2007 and August 4, 2006:

	Three Months Ended				**Six Months Ended**			
	August 3, 2007		**August 4, 2006**		**August 3, 2007**		**August 4, 2006**	
	Dollars	**% of Revenue**	**Dollars**	**% of Revenue**	**Dollars**	**% of Revenue**	**Dollars**	**% of Revenue**
	(in millions, except share amounts and percentages)							
Net revenue	$ 14,776	100.0%	$ 14,211	100.0%	$ 29,498	100.0%	$ 28,531	100.0%
Gross margin	$ 2,951	19.9%	$ 2,138	15.0%	$ 5,789	19.6%	$ 4,646	16.3%
Operating expenses	$ 2,049	13.8%	$ 1,594	11.2%	$ 3,954	13.4%	$ 3,137	11.0%

Operating income	$	902	6.1%	$	544	3.8%	$	1,835	6.2%	$	1,509	5.3%
Net income	$	746	5.1%	$	480	3.4%	$	1,502	5.1%	$	1,256	4.4%
Earnings per share diluted	$	0.33	N/A	$	0.21	N/A	$	0.66	N/A	$	0.55	N/A

Consolidated Revenue

Consolidated revenue grew 4% year-over-year in the second quarter and 3% year-over-year for first six months of Fiscal 2008. We grew revenue and profitability across all segments except for our U.S. Consumer segment, where revenue declined 27% and 26% year-over-year for the second quarter and first six months of Fiscal 2008, respectively. Our overall profitability was driven by strengthening in our enterprise products and services, improved average selling prices, and favorable component costs. Software and peripherals experienced significant revenue growth as well. Revenue and profitability growth during the second quarter and first six months of Fiscal 2008 was partially offset by significant declines in both unit shipments and revenues in our U.S. Consumer segment. Revenue outside the U.S. comprised 45% of consolidated revenue for the second quarter of Fiscal 2008, compared to 41% for the same period last year. For the first six months of Fiscal 2008 and Fiscal 2007, revenue outside the U.S. represented 46% and 43%, respectively, of the consolidated revenue.

Revenues by Segment

We conduct operations worldwide and manage our business in three geographic regions: the Americas, EMEA, and APJ. The Americas region covers the U.S., Canada, and Latin America. Within the Americas, we are further segmented into Business and U.S. Consumer. The Business segment includes sales to corporate, government, healthcare, education, and small and medium business customers within the Americas region, while the U.S. Consumer segment includes sales primarily to individual consumers within the U.S. The EMEA region covers Europe, the Middle East, and Africa. The APJ region covers the Asian countries of the Pacific Rim as well as Australia, New Zealand, and India.

The following table summarizes our revenue by reportable segment:

	Three Months Ended				Six Months Ended			
	August 3, 2007		August 4, 2006		August 3, 2007		August 4, 2006	
	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue
	(in millions, except percentages)							
Net revenue								
Americas:								
Business	$ 7,914	53.6%	$ 7,502	52.8%	$ 15,426	52.3%	$ 14,612	51.2%
U.S. Consumer	1,301	8.8%	1,787	12.6%	2,736	9.3%	3,698	13.0%
Americas	9,215	62.4%	9,289	65.4%	18,162	61.6%	18,310	64.2%
EMEA	3,488	23.6%	3,049	21.4%	7,253	24.6%	6,451	22.6%
APJ	2,073	14.0%	1,873	13.2%	4,083	13.8%	3,770	13.2%
Net revenue	$ 14,776	100.0%	$ 14,211	100.0%	$ 29,498	100.0%	$ 28,531	100.0%

<u>*Americas*</u> Americas revenues declined slightly for the second quarter and first six months of Fiscal 2008, while units decreased 6% and 10%, respectively, as compared to the second quarter and first six months of Fiscal 2007. In the second quarter and first six months of Fiscal 2008, 5% and 6% growth, respectively, in our Americas Business segment was offset by a 27% and 26% decrease in revenue in our U.S. Consumer segment during the same periods, respectively. Even though we experienced average selling prices that were 5% higher during the second quarter and 10% higher for the first six months of Fiscal 2008 as compared to the prior year periods, total revenue did not grow at the same rate due to significant declines in unit shipments in U.S. Consumer. For the second quarter and first six months of Fiscal 2008, strong revenue growth in servers and networking, storage, and software and peripherals sales were offset by declines in desktop, mobility, and enhanced services sales.

- *Business* Americas Business revenue increased 5% and 6% year-over-year for the second quarter and first six months of Fiscal 2008, respectively. Public and small and medium business growth and Americas International, which includes countries in North and South America other than the United States, drove the majority of the increase in revenue in Americas Business. Americas International produced strong revenue growth of 13% year-over-year for the second quarter and 12% for first six months of Fiscal 2008. All products grew for the three and six month periods ended August 3, 2007.

- *U.S. Consumer* U.S. Consumer revenue declined 27% and 26% year-over-year in the second quarter and first six months of Fiscal 2008, respectively. The significant decline in U.S. Consumer revenue is due to competitive pressure and continuing decline in desktop revenue. Desktop shipments decreased 36% in the second quarter of Fiscal 2008 and 47% for first six months of Fiscal 2008 as compared to the same periods in the prior year. Our U.S. Consumer business continues to face a competitive pricing environment. Mobility revenue declined 36% for the second quarter of Fiscal 2008 on a unit decline of 38% and declined 32% on a unit decline of 39% for the first six months of Fiscal 2008, while the industry-wide consumer mobility sales in the U.S. grew 26% and 24% during the second quarter and first six months of Fiscal 2008, respectively. The demand for our products deteriorated due to price competition and decreased product appeal. This environment has led the U.S. Consumer business to update its business model and enter into a limited number of retail distribution arrangements to complement and extend the existing direct business. We are also investing in initiatives that will align our new and existing products around customers needs and wants in order to drive long-term, sustainable performance. Our investments have resulted in better than expected demand for certain of our Inspiron and XPS notebooks.

EMEA EMEA revenue grew 14% on unit growth of 9% for the second quarter of Fiscal 2008, and for the first six months of Fiscal 2008, EMEA revenue grew 12% year-over-year on unit growth of 1%. The revenue growth is attributed to higher average selling prices which increased 5% in the second quarter and 11% during the first six months of Fiscal 2008 due to changes in product mix. Year-over-year revenue growth for both the second quarter and first six months of Fiscal 2008 was led by Germany, France, and the United Kingdom, and Poland, Austria, and Greece produced significant year-over-year growth at rates well above the overall region for the second quarter and first six months of Fiscal 2008. The marginal overall unit increase in EMEA for the first six months of Fiscal 2008 was mainly due to a 6% decrease in desktop shipments during the period as compared to the same period in Fiscal 2007. This shipment decline led to a 1% reduction in desktop revenue. Revenue growth was driven primarily by increases in mobility products, enhanced services, and servers and networking.

APJ APJ revenue grew 11% on a unit increase of 13% for the second quarter of Fiscal 2008. During the first six months of Fiscal 2008, APJ revenue grew 8% on a unit increase of 6%. For the second quarter of Fiscal 2008, revenue growth in APJ was led by China with 17% growth, Australia-New Zealand with 10% growth, and India with 42% growth. These four countries led APJ revenue growth for the first six months of Fiscal 2008 as well. Additionally, Malaysia, Taiwan, and Thailand produced significant year-over-year growth at rates well above the overall region for the second quarter and first six months of Fiscal 2008. Excluding Japan, the APJ region experienced a 17% and 16% increase in revenue, year-over-year, for the second quarter and first six months of Fiscal 2008, respectively. During the same time periods, Japan s revenue decreased 3% and 5%, respectively, under significant competitive pressure. For APJ overall, mobility, servers and networking, and storage experienced strong revenue growth for the three and six month periods ended August 3, 2007. Enhanced services revenue declined significantly during the same periods, while desktop revenue increased 12% year-over-year for the second quarter of Fiscal 2008 and increased 6% for the first six months of Fiscal 2008.

Revenue by Product and Services Categories

We design, develop, manufacture, market, sell, and support a wide range of products that in many cases are customized to individual customer requirements. Our product categories include desktop computer systems, mobility products, software and peripherals, servers and networking products, and storage products. In addition, we offer a range of enhanced services.

During the second quarter of Fiscal 2008, we ran a higher-than-normal product backlog, driven by better-than-expected demand for the new Inspiron and XPS colored notebooks coupled with supply constraints for several colors, and a tightening in supply of certain flat-panel displays. Even though we believe the supply environment will improve in the second half of the year, we still expect higher than normal backlog at the end of the third quarter for Fiscal 2008.

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The following table summarizes our net revenue by product and service categories:

	Three Months Ended				Six Months Ended			
	August 3, 2007		August 4, 2006		August 3, 2007		August 4, 2006	
	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue
	(in millions, except percentages)							
Net revenue:								
Desktop PCs	$ 5,017	34%	$ 4,992	35%	$ 9,959	34%	$ 10,283	36%
Mobility	3,865	26%	3,846	27%	7,881	26%	7,627	27%
Software & peripherals	2,380	16%	2,219	16%	4,721	16%	4,401	15%
Servers & networking	1,618	11%	1,348	9%	3,211	11%	2,699	9%
Enhanced services	1,283	9%	1,258	9%	2,564	9%	2,483	9%
Storage	613	4%	548	4%	1,162	4%	1,038	4%
Net revenue	$ 14,776	100%	$ 14,211	100%	$ 29,498	100%	$ 28,531	100%

Desktop PCs Revenue from sales of desktop PCs consists of Dell XPS™, OptiPlex™, Dimension™, Inspiron™, Vostro™, and Alienware Aurora™, Area-51®, and ALX™ desktop computer systems, and Dell Precision™ and Alienware MJ-12® desktop workstations. During the second quarter of Fiscal 2008, we began selling our new Vostro™ desktops, specifically designed to meet the needs of small business customers. Revenue from desktop PCs remained flat during the second quarter of Fiscal 2008 as compared to the second quarter of the prior year, and it decreased 3% for the first half for Fiscal 2008 on a unit decline of 8%. This performance was driven by our U.S. Consumer business, where desktop revenue was down 26% year-over-year for the current quarter and down 30% for the first half of Fiscal 2008. Business and consumer demand continues to shift toward mobility products as notebook computers capabilities increase and they become more affordable. The decline in desktop revenue can also be attributed to overall competitive price pressures.

Mobility Revenue from mobility products consists of Dell XPS™, Dell Latitude™, Dell Inspiron™, Dell Vostro™, Alienware Area-51®, Alienware Sentia™, and Alienware ALX™ notebook computer systems; Dell Precision™ and Alienware MJ-12® mobile workstations; and non-Dell branded MP3 music players. To better meet the needs of small businesses, during the second quarter of Fiscal 2008 we began selling our new Vostro™ notebooks, specifically designed to meet the needs of small business customers. During the second quarter revenue from mobility grew 1% on unit growth of 2%. During the first six months of Fiscal 2008, revenue from mobility grew year-over-year by 3% on unit growth of 1%. For the second quarter, mobility revenue in EMEA, APJ, and Americas Business grew 16%, 24%, and 2% respectively, on unit growth of 18%, 17%, and 7% respectively. This revenue growth was offset by a 36% and a 38% decline in U.S. Consumer revenue and units, respectively. For the six months ended August 3, 2007, mobility revenue in EMEA, APJ, and Americas Business grew 16%, 20%, and 6% respectively, on unit growth of 13%, 14%, and 9% respectively. This revenue growth was offset by a 32% and a 39% decline in U.S. Consumer revenue and units, respectively. We continue to capitalize on the growth of mobile computing outside of the U.S. Consumer segment with notebooks producing revenue and unit growth in APJ, EMEA, and Americas Business. As notebooks become more affordable and wireless products become standardized, demand for our mobility products continues to be strong.

Software and Peripherals Revenue from sales of software and peripherals consists of Dell-branded printers, monitors (not sold with systems), projectors, and a multitude of competitively priced third-party peripherals including plasma and LCD televisions, software, and other products. This revenue grew 7% year-over-year for the second quarter and first six months of Fiscal 2008. We experienced significant growth in digital displays, as well as imaging and printing products.

Servers and Networking Revenue from sales of servers and networking products, consisting of our standards-based PowerEdge™ line of servers and PowerConnect™ networking products, grew 20% year-over-year for the second quarter of Fiscal 2008 on unit growth of 8%. For the first half of Fiscal 2008, servers and networking revenue increased 19% on unit growth of 4%. All regions contributed to the strong revenue growth, and for the second quarter, we were again ranked number one in the United States with a 33% share in units shipped. Servers and networking remains a strategic focus area. We competitively price our server products to facilitate additional sales of storage products and higher margin enhanced services.

Enhanced Services Enhanced services consists of a wide range of services including assessment, design and implementation, deployment, asset recovery and recycling, training, enterprise support, client support, and managed lifecycle. Enhanced services revenue increased 2% year-over-year for the three-month period ended August 3, 2007 to $1.3 billion, and for the six-month period ended August 3, 2007, enhanced services revenue increased 3% to $2.6 billion. For the second quarter of Fiscal 2008, EMEA s enhanced services revenue increased 31%, while enhanced services revenue decreased 18% in APJ and 3% in the Americas. For the first half of Fiscal 2008, EMEA s enhanced services revenue increased 32%, while enhanced services revenue decreased 19% in APJ and 1% in the Americas.

Storage Revenue from sales of storage products, consisting of a comprehensive portfolio of storage solutions with services, including Dell | EMC and Dell PowerVault™ storage devices, increased 12% for the second quarter and first six months of Fiscal 2008. All regions contributed to the strong revenue growth, led by EMEA, which experienced growth of 26% and 23% for the second quarter and first six months of Fiscal 2008, respectively.

Gross Margin

The following table presents information regarding our gross margin for the three and six month periods ended August 3, 2007 and August 4, 2006:

	Three Months Ended				Six Months Ended			
	August 3, 2007		August 4, 2006		August 3, 2007		August 4, 2006	
	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue
	(in millions, except percentages)							
Net revenue	$ 14,776	100.0%	$ 14,211	100.0%	$ 29,498	100.0%	$ 28,531	100.0%
Gross margin	$ 2,951	19.9%	$ 2,138	15.0%	$ 5,789	19.6%	$ 4,646	16.3%

Our margins increased for the second quarter and first half of Fiscal 2008 as compared to the same periods in the prior year primarily as a result of stronger enterprise products and services results and favorable declines in component costs. We continuously negotiate with our suppliers in a variety of areas including availability of supply, quality, and cost. These real-time continuous supplier negotiations support our business model, which is able to respond quickly to changing market conditions due to our direct customer model and real-time manufacturing. Our component costs reflect both ongoing supplier discount arrangements as well as shorter-term incremental discounts and rebates, based on such factors as volume, product offerings and transitions, supply conditions, and joint activities. Because of the fluid nature of these ongoing negotiations, the timing and amount of supplier discounts and rebates vary from time to time. In addition, a focus on more richly configured customer solutions and a better mix of products and services yielded significantly higher average selling prices and a better balance of profitability and revenue growth.

In Fiscal 2007, we added a second source of micro processors (chip sets) ending a long-standing practice of sourcing from only one manufacturer. We believe that moving to more than one supplier of chip sets is beneficial for customers long-term, as it adds choice and ensures access to the most current technologies. We now sell the second source of chip sets across all of our hardware product categories. During the transition from sole to dual sourcing of chip sets, gross and operating income margins were negatively impacted as we re-balanced product and category mix.

On May 31, 2007 we announced that we had initiated a comprehensive review of costs across all processes and organizations with the goal to simplify structure, eliminate redundancies, and better align operating expenses with the current business environment and strategic growth opportunities. As a part of this overall effort, we expect to reduce headcount and infrastructure costs over the next twelve months. Our management teams are presently finalizing transformation plans, which include headcount and infrastructure cost reduction goals. This headcount reduction is expected to impact both cost of goods sold and operating expenses worldwide.

Operating Expenses

The following table summarizes our operating expenses:

	Three Months Ended				Six Months Ended			
	August 3, 2007		August 4, 2006		August 3, 2007		August 4, 2006	
	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue	Dollars	% of Revenue
	(in millions, except percentages)							
Operating expenses:								
Selling, general, and administrative	$ 1,894	12.8%	$ 1,469	10.3%	$ 3,657	12.4%	$ 2,883	10.1%
Research, development, and engineering	155	1.0%	125	0.9%	297	1.0%	254	0.9%
Operating expenses	$ 2,049	13.8%	$ 1,594	11.2%	$ 3,954	13.4%	$ 3,137	11.0%

<u>*Selling, general, and administrative*</u> During the second quarter of Fiscal 2008, selling, general, and administrative expenses increased 29% to $1.9 billion compared to $1.5 billion in the same period of Fiscal 2007. For the six-month period ended August 3, 2007, selling, general, and administrative expenses were $3.7 billion compared to $2.9 billion during the same period in Fiscal 2007, an increase of 27%. Costs primarily related to headcount growth and costs associated with the U.S. Securities and Exchange Commission (SEC) and internal investigations drove the increase in the second quarter and first six months of Fiscal 2008. Expenses related to SEC and internal investigations were $59 million and $106 million for the three and six months ending August 3, 2007, respectively. In addition, the second quarter of Fiscal 2008 includes $86 million of additional expense for expected cash payments for expiring stock options.

<u>*Research, development, and engineering*</u> During the second quarter of Fiscal 2008, research, development, and engineering expenses increased 24% to $155 million, compared to $125 million in the same period of Fiscal 2007, and increased 17% from $254 million to $297 million for the first six months of Fiscal 2008. The increase is mainly due to higher compensation costs, which increased 36% year-over-year to $127 million for the second quarter and increased 25% year-over-year to $241 million for the first half of Fiscal 2008. The increased compensation costs are mainly due to headcount growth. We manage our research, development, and engineering spending by targeting those innovations and products most valuable to our customers and by relying upon the capabilities of our strategic partners. We will continue to invest in research, development, and engineering activities to support our growth and to provide for new, competitive products. We have obtained 1,847 patents worldwide and have applied for 1,977 additional patents worldwide at August 3, 2007.

Stock-based Compensation

As a result of our inability to timely file our Annual Report on Form 10-K for Fiscal 2007, we suspended the exercise of employee stock options, the vesting of restricted stock units, and the purchase of shares under our employee stock purchase plan. With the filing of this report and our other past due periodic reports, we are again current in our periodic reporting obligations and, accordingly, expect to resume the exercise of employee stock options by employees, the vesting of restricted stock units, and the purchase of shares under our employee stock purchase plan.

We agreed to pay cash to certain current and former employees who held in-the-money stock options (options that have an exercise price less than the current stock market price) that expired during the period of unexercisability. Within 45 days after we file our Annual Report on Form 10-K for Fiscal 2007, we will make payments relating to in-the-money stock options that expired in the second and third quarters of Fiscal 2008, which are expected to total approximately $113 million. We will not continue to pay cash for expired in-the-money stock options once the options again become exercisable.

Investment and Other Income, net

Net investment and other income primarily includes interest income and expense, gains and losses from the sale of investments, and investment related fees, as well as foreign exchange transaction gains and losses. Net investment and other income increased to $96 million and $174 million for the second quarter and first six months of Fiscal 2008, respectively, compared to $50 million and $104 million, respectively, for the same periods in Fiscal 2007. This increase is primarily due to an increase in average cash and investments balances and higher interest rates during the second quarter and first six months of Fiscal 2008 as compared to the same periods of Fiscal 2007. This growth in net investment and other income was partially offset by increases in foreign exchange fluctuations for both second quarter and first six months of Fiscal 2008 as compared to the same periods in the prior year.

Income Taxes

We reported an effective tax rate of approximately 25.3% for the second quarter of Fiscal 2008, as compared to 19.0% for the same quarter in the prior year. For the six month periods ended August 3, 2007 and August 4, 2006, our effective tax rate was 25.3% and 22.1%, respectively. The increase in our effective tax rate is primarily due to the impact of new U.S. transfer pricing rules and the impact of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). In addition, during the second quarter of Fiscal 2007, there was a reserve release of $31 million related to a change in estimate of an income tax audit related item. The differences between our effective tax rate and the U.S. federal statutory rate of 35% principally result from our geographical distribution of taxable income and differences between the book and tax treatment of certain items.

Off-Balance Sheet Arrangements

Asset Securitization During the second quarter of Fiscal 2008, we continued to sell customer financing receivables to unconsolidated qualifying special purpose entities. The qualifying special purpose entities are bankruptcy remote legal entities with assets and liabilities separate from ours. The sole purpose of the qualifying special purpose entities is to facilitate the funding of finance receivables in the capital markets. We determine the amount of receivables to securitize based on our funding requirements in conjunction with specific selection criteria designed for the transaction. The qualifying special purpose entities have entered into financing arrangements with three multi-seller conduits that, in turn, issue asset-backed debt securities in the capital markets. Transfers of financing receivables are recorded in accordance with the provisions of Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities* (SFAS 140).

We retain the right to receive collections on securitized receivables in excess of amounts needed to pay interest and principal as well as other required fees. Upon the sale of the financing receivables, we record the present value of the excess cash flows as a retained interest, which typically results in a gain that ranges from 2% to 4% of the customer receivables sold. We service these securitized contracts and earn a servicing fee. Our securitization transactions generally do not result in servicing assets and liabilities, as the contractual fees are adequate compensation in relation to the associated servicing cost.

In estimating the value of the retained interest, we make a variety of financial assumptions, including pool credit losses, payment rates, and discount rates. These assumptions are supported by both our historical experience and anticipated trends relative to the particular receivable pool. We review our investments in retained interests periodically for impairment, based on their estimated fair value. Any resulting losses representing the excess of carrying value over estimated fair value that are other-than-temporary are recorded in earnings. Upon the adoption of SFAS 155 in the first quarter of Fiscal 2008, Dell began recording unrealized gains or losses in earnings in its Condensed Consolidated Statements of Income. Retained interest balances and assumptions are disclosed in Note 6 of Notes to Condensed Consolidated Financial Statements included in Part I Item 1 Financial Statements.

Our securitization program contains structural features that could prevent further funding if the credit losses or delinquencies on the pool of sold receivables exceed specified levels. These structural features are within normal industry practice and are similar to comparable securitization programs in the marketplace. We do not expect that any of these features will have a material adverse impact on our ability to securitize financing receivables. We closely monitor our entire portfolio, including subprime assets, and take action relative to underwriting standards as necessary.

Liquidity and Capital Commitments

Liquidity

Our cash balances are held in numerous locations throughout the world, including substantial amounts held outside of the U.S. Most of the amounts held outside of the U.S. could be repatriated to the U.S., but under current law, would be subject to U.S. federal income taxes, less applicable foreign tax credits. Repatriation of some foreign balances is restricted by local laws. We have provided for the U.S. federal tax liability on these amounts for financial statement purposes except for foreign earnings that are considered indefinitely reinvested outside of the U.S. Repatriation could result in additional U.S. federal income tax payments in future years. Where local restrictions prevent an efficient intercompany transfer of funds, our intent is that those cash balances would remain outside of the U.S., and we would meet our U.S. liquidity needs through operating cash flows, external borrowings, or both. We utilize a variety of tax planning and financing strategies with the objective of having our worldwide cash available in the locations in which it is needed.

We ended the second quarter of Fiscal 2008 with $13.8 billion in cash, cash equivalents, and investments, compared to $10.8 billion at the end of the second quarter of Fiscal 2007. We invest a large portion of our available cash in highly liquid and highly rated government, agency, and corporate debt securities of varying maturities at the date of acquisition. Our investment policy is to manage our investment portfolio to preserve principal and liquidity while maximizing the return through the full investment of available funds. The following table summarizes the results of our Condensed Consolidated Statement of Cash Flows for the six-month period ended August 3, 2007 and August 4, 2006:

	Six Months Ended	
	August 3, 2007	**August 4, 2006**
	(in millions)	
Net cash flow provided by (used in):		
Operating activities	$ 1,754	$ 1,812
Investing activities	(121)	345
Financing activities	(16)	(2,470)
Effect of exchange rate changes on cash and cash equivalents	41	54

Net increase (decrease) in cash and cash equivalents	$ 1,658	$ (259)

Operating Activities Cash provided by operating activities during the six-month period ended August 3, 2007 and August 4, 2006 was $1.8 billion. The slight decrease in operating cash flows was primarily led by changes in operating working capital accounts and deterioration in our cash conversion cycle. During the first six months of Fiscal 2008 as compared to the first six months of the preceding year, changes in operating working capital accounts were impacted by a $1.1 billion change in classification of income tax liabilities from current to non-current liabilities related to the adoption of FIN 48. Although our cash conversion cycle deteriorated year-over-year, cash flows from operating activities typically result from net income, which represents our principal source of cash. Our direct model allows us to maintain an efficient cash conversion cycle, which compares favorably with that of others in our industry.

The following table presents the components of our cash conversion cycle at August 3, 2007 and February 2, 2007:

	August 3, 2007	**February 2, 2007**
Days of sales outstanding[(a)]	35	31
Days of supply in inventory	7	5
Days in accounts payable	(80)	(78)
Cash conversion cycle	(38)	(42)

(a) Days of sales outstanding (DSO) is based on the ending net trade receivables and most recent quarterly revenue for each period. DSO includes the effect of product costs related to customer shipments not yet recognized as revenue that are classified in other current assets. At August 3, 2007 and February 2, 2007, DSO and days of customer shipments not yet recognized were 32 and 3 days and 28 and 3 days, respectively.

Our cash conversion cycle decreased four days at August 3, 2007 from February 2, 2007. This decline is driven by a four day increase in days of sales outstanding, largely attributed to a higher percentage of our revenue coming from our customers requiring payments terms and a higher percentage of revenue occurring at the end of the period. In addition, days of supply in inventory increased two days due to an increase in production materials inventory due to strategic materials purchases offset by a two day increase in days in accounts payable, largely attributed to an increase in the number of suppliers with extended payment terms as compared to Fiscal 2007 and the timing of payments to vendors compared to the fourth quarter of Fiscal 2007.

We defer the cost of revenue associated with customer shipments not yet recognized as revenue until they are delivered. These deferred costs are included in our reported days of sales outstanding because we believe it presents a more accurate presentation of our days of sales outstanding and cash conversion cycle. These deferred costs are recorded in other current assets in our Condensed Consolidated Statements of Financial Position and totaled $426 million and $424 million at August 3, 2007 and February 2, 2007, respectively.

Investing Activities Cash used in investing activities for the six-month period ended August 3, 2007 was $121 million, compared to cash provided by investing activities of $345 million for the same period last year. Cash provided by and used in investing activities principally consists of net maturities and sales or purchases of investments and capital expenditures for property, plant, and equipment. The decrease in cash provided by investing activities from the same period last year is a result of a decrease in the net proceeds from maturities and sales and an increase in the purchases of marketable securities as liquidity for share repurchases was not as necessary due to the suspension of our share repurchase program. Additionally, a significant increase in capital expenditures partially offset by a decrease in business acquisitions contributed to the decline in cash from investing activities for the six-month period ended August 3, 2007 as compared to the same period in the previous year.

Financing Activities Cash used in financing activities during the six-month period ended August 3, 2007 was $16 million, compared to $2.5 billion during the same period last year. Financing activities primarily consist of the repurchase of our common stock, partially offset by proceeds from the issuance of common stock under employee stock plans and other items. The year-over-year decrease in cash used in financing activities is due primarily to the suspension of the share repurchase program for the first half of Fiscal 2008 during which no shares were repurchased related to the program. During the same period in Fiscal 2007, a total of 102 million shares at an aggregate cost of $2.7 billion were repurchased.

We believe our ability to generate cash flows from operations on an annual basis will continue to be strong, driven mainly by our profitability, efficient cash conversion cycle, and the growth in our deferred enhanced services offerings. However, in order to augment our liquidity and provide us with additional flexibility, we implemented a commercial paper program with a supporting credit facility on June 1, 2006. Under the commercial paper program, we issue, from time-to-time, short-term unsecured notes in an aggregate amount not to exceed $1.0 billion. We use the proceeds for general corporate purposes, including funding Dell Financial Services L.P. (DFS) growth. See Note 10 of Notes to Condensed Consolidated Financial Statements included in Part I Item 1 Financial Statements for further discussion of our commercial paper program. At August 3, 2007, $60 million was outstanding under the program; at October 26, 2007, no amounts were outstanding. Our $200 million Senior Notes are due April 15, 2008, and we intend to pay the outstanding balance of $200 million at that time. We do not expect the payment to have a significant impact on our cash flows or cash position.

Capital Commitments

Redeemable Common Stock and Other Rescissionary Rights We inadvertently failed to register with the SEC the sale of some shares under certain employee benefit plans. As a result, certain purchasers of common stock pursuant to those plans may have the right to rescind their purchases for an amount equal to the purchase price paid for the shares, plus interest from the date of purchase. At August 3, 2007 and February 2, 2007, we have classified approximately 5 million shares ($116 million) and 5 million shares ($111 million), respectively, that may be subject to the rescissionary rights outside stockholders equity, because the redemption features are not within our control. These shares have always been treated as outstanding for financial reporting purposes. Certain purchasers of common stock pursuant to these plans who sold their shares for less than the purchase price may have the right to rescind their purchases for an amount of cash equal to the purchase price plus interest minus the proceeds of the sale.

Share Repurchase Program We have a share repurchase program that authorizes us to purchase shares of common stock 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 in conjunction with share-based payment arrangements. At August 3, 2007, our share repurchase program authorized the purchase of common stock at an aggregate cost not to exceed $30.0 billion, of which we have already repurchased $28.6 billion.

We typically repurchase shares of common stock through a systematic program of open market purchases. We temporarily suspended our share repurchase program in September 2006 pending completion of the Audit Committee investigation. As a result, no shares were repurchased under the program during the first half of Fiscal 2008. We anticipate recommencing our share repurchase program in the fourth quarter of Fiscal 2008. For more information regarding share repurchases, see Part II Item 2 Unregistered Sales of Equity Securities and Use of Proceeds.

Capital Expenditures During the three and six month periods ended August 3, 2007, we spent approximately $293 million and $464 million, respectively, on property, plant, and equipment primarily on our global expansion efforts and infrastructure investments in order to support future growth. Product demand and mix, as well as ongoing efficiencies in operating and information technology infrastructure, influence the level and prioritization of our capital expenditures. Capital expenditures for Fiscal 2008 (related to our continued expansion worldwide, the need to increase manufacturing capacity, and leasing arrangements to facilitate customer sales) are currently expected to reach approximately $900 million. These expenditures are expected to be funded from our cash flows from operating activities.

DFS Purchase Commitment Pursuant to our joint venture agreement with CIT Group, Inc. (CIT), we have an option to purchase CIT s 30% interest in DFS in February 2008, for a purchase price ranging from approximately $100 million to $345 million. We currently expect that the purchase price will likely be towards the upper end of that range. If we do not exercise this purchase option, we are obligated to purchase CIT s 30% interest upon the occurrence of certain termination events or upon the expiration of the joint venture on January 29, 2010. See Note 6 of Notes to Condensed Consolidated Financial Statements included in Part I Item 1 Financial Statements.

Restricted Cash Pursuant to an agreement between DFS and CIT, we are required to maintain escrow cash accounts that are held as recourse reserves for credit losses, performance fee deposits related to our private label credit card, and deferred servicing revenue. Restricted cash specific to the consolidation of DFS in the amount of $357 million and $416 million in restricted cash is included in other current assets at August 3, 2007 and February 2, 2007, respectively.

Recently Issued Accounting Pronouncements

See Note 1 of Notes to Condensed Consolidated Financial Statements included in Part I Item 1 Financial Statements for a description of recently issued accounting pronouncements, including the expected dates of adoption and estimated effects on our results of operations, financial position, and cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a description of our market risks, see Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Market Risk in our Annual Report on Form 10-K for the fiscal year ended February 2, 2007. Our exposure to market risks has not changed materially from the description in the Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

This Report includes the certifications of our Chief Executive Officer and Chief Financial Officer required by Rule 13a-14 of the Securities Exchange Act of 1934 (the Exchange Act). See Exhibits 31.1 and 31.2. This Item 4 includes information concerning the controls and control evaluations referred to in those certifications.

Background

As previously disclosed under Part II Item 9A Controls and Procedures in our Annual Report on Form 10-K for the fiscal year ended February 2, 2007, management has concluded that our internal control over financial reporting was not effective as of February 2, 2007 because of the following control deficiencies that constituted material weaknesses in our internal control over financial reporting:

Control environment We did not maintain an effective control environment. Specifically:

- We did not maintain a tone and control consciousness that consistently emphasized strict adherence to GAAP. This control deficiency resulted in an environment in which accounting adjustments were viewed at times as an acceptable device to compensate for operational shortfalls, which in certain instances led to inappropriate accounting decisions and entries that appear to have been largely motivated to achieve desired accounting results and, in some instances, involved management override of controls. In a number of instances, information critical to an effective review of transactions and accounting entries was not disclosed to internal and external auditors.

- We did not maintain a sufficient complement of personnel with an appropriate level of accounting knowledge, experience, and training in the application of GAAP commensurate with our financial reporting requirements and business environment.

The control environment, which is the responsibility of senior management, sets the tone of the organization, influences the control consciousness of its people, and is the foundation for all other components of internal control over financial reporting. The control environment material weaknesses described above contributed to the material weaknesses related to our period-end financial reporting process described below.

Period-end financial reporting process We did not maintain effective controls over the period-end reporting process, including controls with respect to the review, supervision, and monitoring of accounting operations. Specifically:

- Journal entries, both recurring and nonrecurring, were not always accompanied by sufficient supporting documentation and were not always adequately reviewed and approved for validity, completeness, and accuracy;

- Account reconciliations over balance sheet accounts were not always properly and timely performed, and the reconciliations and their supporting documentation were not consistently reviewed for completeness, accuracy, and timely resolution of reconciling items; and

- We did not design and maintain effective controls to ensure the completeness, accuracy, and timeliness of the recording of accrued liabilities, reserves, and operating expenses, primarily related to our accrued warranty obligations, goods and services received but not invoiced, customer rebates, and nonproduction operating expenses.

These material weaknesses resulted in the restatement of our previously issued annual and interim financial statements for Fiscal 2003, 2004, 2005, and 2006, and the first quarter of Fiscal 2007 and adjustments, including audit adjustments and adjustments related to the investigation and our internal reviews, to our annual and other interim financial statements for Fiscal 2007. In addition, these material weaknesses could result in material misstatements of substantially all of our financial statement accounts that would result in a material misstatement of our annual or interim consolidated financial statements that would not be prevented or detected on a timely basis.

Our management, under new leadership as described below, has been actively engaged in the planning for, and implementation of, remediation efforts to address the material weaknesses, as well as other identified areas of risk. These remediation efforts, outlined below, are intended both to address the identified material weaknesses and to enhance our overall financial control environment. In January 2007, Michael S. Dell re-assumed the position of Chief Executive Officer and Donald J. Carty assumed the position of Chief Financial Officer. The design and implementation of these and other remediation efforts are the commitment and responsibility of this new leadership team.

Our new leadership team, together with other senior executives, is committed to achieving and maintaining a strong control environment, high ethical standards, and financial reporting integrity. This commitment will be communicated to and reinforced with every Dell employee and to external stakeholders. This commitment is accompanied by a renewed management focus on decision-making and processes that are intended to achieve maximum shareholder value over the long-term and a decreased focus on short-term, quarter-by-quarter operating results.

As a result of the initiatives already underway to address the control deficiencies described above, we have effected personnel changes in our accounting and financial reporting functions. Consequently, many of the employees involved in the accounting processes in which errors and irregularities were made are no longer involved in the accounting or financial reporting function. In addition, we have taken, or will take, appropriate remedial actions with respect to certain employees, including terminations, reassignments, reprimands, increased supervision, training, and imposition of financial penalties in the form of compensation adjustments.

We are in the process of reorganizing the Finance Department, segregating accounting and financial reporting responsibility from planning and forecasting responsibility, with a renewed commitment to accounting and financial reporting integrity. We have appointed a new Chief Accounting Officer and have strengthened that position, making it directly responsible for all accounting and financial reporting functions worldwide. In addition, we are implementing personnel resource plans, and training and retention programs, that are designed to ensure that we have sufficient personnel with knowledge, experience, and training in the application of GAAP commensurate with our financial reporting requirements.

We will continue our efforts to establish or modify specific processes and controls to provide reasonable assurance with respect to the accuracy and integrity of accounting entries and the appropriate documentation, review and approval of those entries. These efforts include:

- Centralization of the development, oversight, and monitoring of accounting policies and standardized processes in all critical accounting areas, including areas involving management judgment and discretion;

- Implementation and clarification of specific accounting and finance policies, applicable worldwide, regarding the establishment, increase, and release of accrued liability and other balance sheet reserve accounts;

- Creation of a revenue recognition accounting resource function to coordinate complex revenue recognition matters and to provide oversight and guidance on the design of controls and processes to enhance and standardize revenue recognition accounting procedures;

- Improving the processes and procedures around the completion and review of quarterly management representation letters, in which our various business and finance leaders make full and complete representations concerning, and assume accountability for, the accuracy and integrity of their submitted financial results;

- Extending the time between the end of a financial reporting period and the public release of financial and operating data with respect to that period, giving our accounting organization more time to appropriately process the close of the accounting records and analyze the reported results prior to public announcement;

- Enhancing the development, communication, and monitoring of processes and controls to ensure that appropriate account reconciliations are performed, documented, and reviewed as part of standardized procedures; and

- Increasing the focus by the internal audit function and the Chief Accounting Officer on the review and monitoring of key accounting processes, including journal entries and supporting documentation, revenue recognition processes, account reconciliations, and management representation letter controls and processes.

We will implement company-wide training (led by the Chief Accounting Officer and other finance executives with appropriate accounting expertise) to enhance awareness and understanding of standards and principles for accounting and financial reporting. This training will include:

- Development and communication of an accounting code of conduct that will serve as a set of guiding principles emphasizing our commitment to accounting and financial reporting integrity, as well as transparency and robust and complete communications with, and disclosures to, internal and external auditors;

- Comprehensive programs for all finance personnel globally (with initial focus on personnel directly responsible for accounting and financial reporting) covering all fundamental accounting and financial reporting matters, including accounting policies, financial reporting requirements, income statement classification, revenue recognition, vendor funding, accounting for reserves and accrued liabilities, and account reconciliation and documentation requirements; and

- Appropriate programs for other company personnel, including senior management, to emphasize the importance of accounting and financial reporting integrity.

We will invest in the design and implementation of additional and enhanced information technology systems and user applications commensurate with the complexity of our business and our financial reporting requirements. It is expected that these investments will improve the reliability of our financial reporting by reducing the need for manual processes, subjective assumptions, and management discretion; by reducing the opportunities for errors and omissions; and by decreasing our reliance on manual controls to detect and correct accounting and financial reporting inaccuracies.

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We will reemphasize and invigorate our communications to all Dell employees regarding the availability of our Ethics Hotline, through which employees at all levels can anonymously submit information or express concerns regarding accounting, financial reporting, or other irregularities they have become aware of or have observed. In addition, these communications will emphasize the existence and availability of other reporting avenues or forums for all employees, such as their management chain, their Human Resources representatives, the Ethics Office, the Ombudsman s Office, the Legal Department, and direct contact with the Chief Financial Officer or the Audit Committee.

The Audit Committee has directed management to develop a detailed plan and timetable for the implementation of the foregoing remedial measures (to the extent not already completed) and will monitor their implementation. In addition, under the direction of the Audit Committee, management will continue to review and make necessary changes to the overall design of our internal control environment, as well as policies and procedures to improve the overall effectiveness of internal control over financial reporting.

We believe the remediation measures described above will remediate the material weaknesses we have identified and strengthen our internal control over financial reporting. We are committed to continuing to improve our internal control processes and will continue to diligently and vigorously review our financial reporting controls and procedures. As we continue to evaluate and work to improve our internal control over financial reporting, we may determine to take additional measures to address control deficiencies or determine to modify, or in appropriate circumstances not to complete, certain of the remediation measures described above.

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the chief executive officer and the chief financial officer, to allow timely decisions regarding required disclosures.

In connection with the preparation of this Report, Dell s management, under the supervision and with the participation of the current Chief Executive Officer and current Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, the restatement of previously issued financial statements described above, and the identification of certain material weaknesses in internal control over financial reporting (described above), which we view as an integral part of our disclosure controls and procedures, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of August 3, 2007. Nevertheless, based on a number of factors, including the completion of the Audit Committee s investigation, our internal review that identified certain prior period adjustments, efforts to remediate the material weaknesses in internal control over financial reporting described below, and the performance of additional procedures by management designed to ensure the reliability of our financial reporting, we believe that the consolidated financial statements in this Report fairly present, in all material respects, our financial position, results of operations, and cash flows as of the dates, and for the periods, presented, in conformity with GAAP.

Changes in Internal Control Over Financial Reporting

During the third and fourth quarters, and since the end, of Fiscal 2007, we have begun the implementation of some of the remedial measures described above, including (a) communication, both internally and externally, of our commitment to a strong control environment, high ethical standards, and financial reporting integrity; (b) certain personnel actions; (c) the reorganization of the Finance Department to separate accounting and financial reporting responsibility from planning and forecasting responsibility and to strengthen the Chief Accounting Officer role, giving it direct and centralized responsibility for all accounting and financial reporting functions worldwide; (d) the design and implementation of a

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comprehensive training program for all Finance Department personnel; (e) the implementation of more rigorous period-end financial reporting policies and processes involving journal-entry approval, supporting documentation, account reconciliations, and management representation letters; (f) an increased corporate audit focus on key accounting controls and processes, including documentation requirements; (g) extension of the time between the end of reporting periods and earnings release dates to give the accounting organization more time to close the books and process and analyze results; and (h) the design and implementation of a new internal global ethics awareness campaign, including refreshed tools, resources, and policies.

In addition to continuing the actions we implemented in the third and fourth quarters of Fiscal 2007 and the first quarter of Fiscal 2008, we took the following specific actions in the second quarter of Fiscal 2008: Implemented certain personnel actions; began the reorganization of the Finance Department; appointed a new Chief Accounting Officer and began to strengthen the position with direct and centralized responsibility for all accounting and financial reporting functions; designed and began to implement comprehensive training for Finance Department personnel; launched new internal global ethics awareness campaign.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a description of our significant legal proceedings, see Part I Item 3 Legal Proceedings of our Annual Report on Form 10-K for the fiscal year ended February 2, 2007.

ITEM 1A. RISK FACTORS

For a description of the risk factors affecting our business and results of operations, see Part I Item 1A Risk Factors in our Annual Report on Form 10-K for the fiscal year ended February 2, 2007.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuance of Unregistered Securities

For information regarding our inadvertent failure to register the issuance of our common stock under certain employee benefit plans, see Part II Item 5 Market for Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities Issuance of Unregistered Securities Certain Employee Benefit Plan Securities in our Annual Report on Form 10-K for the fiscal year ended February 2, 2007.

Purchases of Common Stock

Cash Payments for Certain Employee Stock Options

For information regarding of our agreement to pay cash for certain stock options that expired unexercised, see Part II Item 5 Market for Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities Purchaser of Common Stock Cash Payments for Certain Employee Stock Options in our Annual Report on Form 10-K for the fiscal year ended February 2, 2007.

Share Repurchase Program

We have a share repurchase program that authorizes us to purchase shares of common stock 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 in conjunction with share-based payment arrangements. As of August 3, 2007, our share repurchase program authorized the purchase of shares of common stock at an aggregate cost not to exceed $30.0 billion, and through that date, $28.6 billion had been spent to repurchase shares. The approximate

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dollar value of shares that may yet be repurchased under the program is $1.4 billion. We temporarily suspended our share repurchase program in September 2006 pending completion of the Audit Committee investigation. Therefore, no shares were repurchased under this program during the second quarter of Fiscal 2008. We anticipate recommencing our share repurchase program in the fourth quarter of Fiscal 2008.

ITEM 6. EXHIBITS

(a) Exhibits See Index to Exhibits below.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DELL INC.

/s/ THOMAS W. SWEET

Date: October 30, 2007

Thomas W. Sweet
Vice President, Corporate Finance and
Chief Accounting Officer
(On behalf of the registrant and as
principal accounting officer)

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INDEX TO EXHIBITS

Exhibit No.	Description of Exhibit
3.1	Restated Certificate of Incorporation, filed February 1, 2006 (incorporated by reference to Exhibit 3.3 of Dell s Current Report on Form 8-K filed on February 2, 2006, Commission File No. 0-17017)
3.2	Restated Bylaws, as amended and effective March 8, 2007 (incorporated by reference to Exhibit 3.1 of Dell s Current Report on Form 8-K filed on March 13, 2007, Commission File No. 0-17017)
4.1	Indenture, dated as of April 27, 1998, between Dell Computer Corporation and Chase Bank of Texas, National Association (incorporated by reference to Exhibit 99.2 of Dell s Current Report on Form 8-K filed April 28, 1998, Commission File No. 0-17017)
4.2	Officers Certificate pursuant to Section 301 of the Indenture establishing the terms of Dell s 6.55% Senior Notes Due 2008 (incorporated by reference to Exhibit 99.3 of Dell s Current Report on Form 8-K filed April 28, 1998, Commission File No. 0-17017)
4.3	Officers Certificate pursuant to Section 301 of the Indenture establishing the terms of Dell s 7.10% Senior Debentures Due 2028 (incorporated by reference to Exhibit 99.4 of Dell s Current Report on Form 8-K filed April 28, 1998, Commission File No. 0-17017)
4.4	Form of Dell s 6.55% Senior Notes Due 2008 (incorporated by reference to Exhibit 99.5 of Dell s Current Report on Form 8-K filed April 28, 1998, Commission File No. 0-17017)
4.5	Form of Dell s 7.10% Senior Debentures Due 2028 (incorporated by reference to Exhibit 99.6 of Dell s Current Report on Form 8-K filed April 28, 1998, Commission File No. 0-17017)
10.1*	Form of Protection of Sensitive Information, Noncompetition and Nonsolicitation Agreement for Executive Officers (incorporated by reference to Exhibit 10.1 of Dell s Current Report on Form 8-K filed on July 16, 2007, Commission file No. 0-17017)
10.2*	Form of Release Agreement between Dell and Current and Former Executive Officers with respect to Expired Stock Options (incorporated by reference to Exhibit 10.1 of Dell s Current Report on Form 8-K file July 16, 2007, Commission file No. 0-17017)
31.1	Certification of Michael S. Dell, President and Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Donald J. Carty, Vice Chairman and Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications of Michael S. Dell, Chairman and Chief Executive Officer, and Donald J. Carty, Vice Chairman and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Identifies an Exhibit that consists of or includes a management contract or compensatory plan or arrangement.

Filed herewith.

Furnished herewith.