

DELL COMPUTER CORP  
Form 10-Q  
September 17, 2001  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

## Form 10-Q

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

For the Quarterly Period Ended August 3, 2001

Commission File Number: 0-17017

## Dell Computer Corporation

(Exact name of registrant as specified in its charter)

**Delaware**

(State of incorporation) **74-2487834**

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

**807 Las Cimas Parkway, Building 2**

**Austin, Texas 78746**

(Address of principal executive offices)

**(512) 338-4400**

(Telephone number)

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 twelve months and (2) has been subject to such filing requirements for the past 90 days. Yes  No

As of the close of business on August 31, 2001, 2,610 million shares of the registrant's common stock, par value \$.01 per share, were outstanding.

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**PART I FINANCIAL INFORMATION**

**ITEM 1. Financial Statements**

**DELL COMPUTER CORPORATION**

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(in millions, except per share amounts; unaudited)

	<u>August 3, 2001</u>	<u>February 2, 2001</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$4,160	\$4,910
Short-term investments	405	528
Accounts receivable, net	2,709	2,895
Inventories	292	400
Other	936	758
	<hr/>	
	<hr/>	
Total current assets	8,502	9,491
Property, plant and equipment, net	851	996
Investments	3,241	2,418
Other non-current assets	582	530
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Total assets  
\$13,176 \$13,435

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**LIABILITIES AND  
STOCKHOLDERS  
EQUITY**

Current liabilities:

Accounts payable  
\$4,587 \$4,286  
Accrued and other  
2,347 2,257

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Total current liabilities  
6,934 6,543  
Long-term debt  
520 509  
Other  
772 761

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Total liabilities  
8,226 7,813

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Stockholders' equity:

Preferred stock and capital in  
excess of \$0.01 par value;  
shares authorized: 5;  
shares issued and outstanding:  
none

Common stock and capital in  
excess of \$0.01 par value;  
shares authorized: 7000; shares  
issued: 2,626 and 2,601,  
respectively

5,286 4,795

Retained earnings

479 839

Treasury stock, at cost;

17 shares and no shares,

respectively

(739)

Other comprehensive income

(loss)

(2) 62

Other	
(74) (74)	
<hr/>	
<hr/>	
Total stockholders' equity	
4,950 5,622	
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Total liabilities and stockholders' equity	
\$13,176 \$13,435	
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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**DELL COMPUTER CORPORATION**

**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**  
(in millions, except per share amounts; unaudited)

	Three Months Ended		Six Months Ended	
	August 3, 2001	July 28, 2000	August 3, 2001	July 28, 2000
Net revenue	\$7,611	\$7,670	\$15,639	\$14,950
Cost of revenue				
6,281 6,036 12,861 11,824				
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<hr/>				
<hr/>				
<hr/>				
Gross margin				
1,330 1,634 2,778 3,126				
<hr/>				
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Operating expenses:

Selling, general and administrative

672 774 1,409 1,524

Research, development and engineering

113 124 236 241

Special charge

482 482

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Total operating expenses

1,267 898 2,127 1,765

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Operating income

63 736 651 1,361

Investment and other income (loss), net

(207) 125 (149) 250

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Income (loss) before income taxes and  
cumulative effect of change in accounting  
principle

(144) 861 502 1,611

Income tax provision (benefit)

(43) 258 141 483

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Income (loss) before cumulative effect of  
change in accounting principle

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(101) 603 361 1,128  
Cumulative effect of change in accounting  
principle, net  
59

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Net income (loss)  
\$(101) \$603 \$361 \$1,069

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Earnings (loss) per common share:

Before cumulative effect of change in  
accounting principle:

Basic  
\$(0.04) \$0.23 \$0.14 \$0.44

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Diluted  
\$(0.04) \$0.22 \$0.13 \$0.41

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After cumulative effect of change in accounting  
principle:

Basic  
\$(0.04) \$0.23 \$0.14 \$0.41

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Diluted  
\$(0.04) \$0.22 \$0.13 \$0.39

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Weighted average shares outstanding:

Basic  
2,601 2,582 2,600 2,578

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Diluted  
2,601 2,726 2,743 2,731

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

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**DELL COMPUTER CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**  
**(in millions; unaudited)**

**Six Months Ended**

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August 3, 2001	July 28, 2000
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Cash flows from operating activities:

Net income (loss)

\$361 \$1,069

Adjustments to reconcile net  
income to net cash provided by  
operating activities:

Depreciation and amortization

125 108

Tax benefits of employee stock  
plans

163 470

Special charge

742

Gain on sale of investments

(12) (165)

Other

141 119

Changes in:

Operating working capital

213 111

Non-current assets and  
liabilities

40 239

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Net cash provided by operating  
activities

1,773 1,951

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Cash flows from investing  
activities:

Investments:

Purchases

(2,662) (1,567)

Maturities and sales

1,703 991

Capital expenditures

(145) (236)

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Net cash used in investing  
activities

(1,104) (812)



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Cash flows from financing  
activities:

Purchase of common stock  
(1,490) (1,021)  
Issuance of common stock  
under employee plans  
166 182  
Other  
13 4

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Net cash used in financing  
activities  
(1,311) (835)

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Effect of exchange rate changes  
on cash  
(108) (37)

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Net increase (decrease) in cash  
(750) 267  
Cash and cash equivalents at  
beginning of period  
4,910 3,809

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Cash and cash equivalents at  
end of period  
\$4,160 \$4,076

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

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**DELL COMPUTER CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(unaudited)

**NOTE 1 BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements of Dell Computer Corporation (the Company) should be read in conjunction with the consolidated financial statements and notes thereto filed with the U.S. Securities and Exchange Commission in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2001. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments of a normal recurring nature considered necessary to present fairly the financial position of the Company and its consolidated subsidiaries at August 3, 2001, and the results of their operations and their cash flows for the interim periods ended August 3, 2001 and July 28, 2000. Certain prior period amounts have been reclassified to conform to the current period presentation.

Effective with the beginning of the second quarter of fiscal 2002, the Company began holding repurchased shares of its common stock as treasury stock. Historically, the Company retired all such repurchased shares. As of August 3, 2001, the Company held 17 million shares in treasury stock at an aggregate cost of \$739 million.

**NOTE 2 SPECIAL CHARGES**

During the second quarter of fiscal 2002, the Company undertook a program to further reduce its workforce and to exit certain activities during fiscal 2002 to align its cost structure with ongoing economic and industry conditions. A special charge of \$482 million related to these actions was recorded in operating expenses in the second quarter. A summary of this charge is as follows (in millions):

	<u>Total Charge</u>	<u>Paid</u>	<u>Non- Cash Charges</u>	<u>Liability at August 3, 2001</u>
Employee separations	\$ 134	\$(54)	\$	\$ 80
Facility consolidations				
169 (8) (79) 82				
Other asset impairments and exit costs				
179 (2) (152) 25				
<hr/>				
<hr/>				
<hr/>				
<hr/>				
Total				
\$482 \$(64) \$(231) \$187				
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The Company announced plans to eliminate approximately 4,000 employee positions worldwide from various business functions and job classes. Substantially all of the employees have been separated from the Company. Included in the other asset impairments and exit costs is \$75 million to write down goodwill and intellectual property associated with the acquisition of ConvergeNet Technologies, Inc. to current fair value.

In addition to the \$482 million charge described above, the Company also recorded an impairment charge of \$260 million during the second quarter reflecting other than temporary declines in fair value of certain investments. This charge is reflected in investment and other income (loss), net.

During the fourth quarter of fiscal 2001, the Company undertook a program to reduce its workforce and to exit certain facilities during fiscal year 2002. Total charges recorded were \$105 million. As of August 3, 2001, \$44 million remains in accrued and other liabilities related to this charge, substantially all of which relates to costs for abandonment of facilities.

### NOTE 3 INVENTORIES

	August 3, 2001	February 2, 2001
Inventories:		
Production materials		
\$122 \$95		
Work-in-process and finished goods		
170 305		
	\$292	\$400

(in millions)

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### NOTE 4 EARNINGS PER COMMON SHARE

Basic earnings per share are based on the weighted effect of all common shares issued and outstanding and are 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 conversion of all potentially dilutive common shares outstanding. The following table sets forth the computation of basic and diluted earnings per share (in millions, except per share amounts):

	Three Months Ended		Six Months Ended	
	August 3, 2001	July 28, 2000	August 3, 2001	July 28, 2000
Net income (loss)	\$(101)	\$603	\$361	\$1,069

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Weighted average shares  
outstanding:

Basic

2,601 2,582 2,600 2,578

Employee stock options and other

144 143 153

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Diluted

2,601 2,726 2,743 2,731

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Earnings (loss) per common share:

Before cumulative effect of change in  
accounting principle:

Basic

\$(0.04) \$0.23 \$0.14 \$0.44

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Diluted

\$(0.04) \$0.22 \$0.13 \$0.41

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After cumulative effect of change in  
accounting principle:

Basic

\$(0.04) \$0.23 \$0.14 \$0.41

Diluted  
 \$(0.04) \$0.22 \$0.13 \$0.39

For the three-months ended August 3, 2001, 130 employee stock options and other were excluded from the computation of diluted earnings per share due to the antidilutive effect.

**NOTE 5 COMPREHENSIVE INCOME**

The Company's comprehensive income is comprised of net income, foreign currency translation adjustments, unrealized gains and losses on derivative financial instruments, and unrealized gains and losses on marketable securities classified as available-for-sale. Comprehensive income for the three- and six-month periods ended August 3, 2001 and July 28, 2000, was as follows (in millions):

	Three Months Ended		Six Months Ended	
	August 3, 2001	July 28, 2000	August 3, 2001	July 28, 2000
Comprehensive income (loss):				
Net income	\$(101)	\$603	\$361	\$1,069
Foreign currency translations	(2)	1		
Unrealized gains (losses) on derivative financial instruments	(39)	9		
Unrealized gains (losses) on marketable securities	3	372	(74)	275
Total comprehensive income (loss)	\$(137)	\$973	\$297	\$1,344

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**NOTE 6 SEGMENT INFORMATION**

The Company has three reportable business segments: the Americas, Europe, and Asia Pacific-Japan regions.

The accounting policies of the geographic segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2001. The Company allocates resources to and evaluates performance of its geographic segments based on balanced priorities of liquidity, profitability and growth. Transfers between geographic areas are recorded using internal transfer prices set by the Company. During the three-month period ended August 3, 2001, the Asia Pacific-Japan region began producing notebook computer systems for the Americas region.

The table below presents information about the Company's reportable segments for the three- and six-month periods ended August 3, 2001 and July 28, 2000:

	<b>Three Months Ended August 3, 2001</b>			
	<b>Americas</b>	<b>Europe</b>	<b>Asia Pacific -Japan</b>	<b>Eliminations Consolidated</b>
	(in millions)			
Net revenue from unaffiliated customers	\$5,402	\$1,483	\$726	\$7,611
Transfers between geographic segments	3	357	(360)	
<b>Total net revenue</b>	<b>\$5,405</b>	<b>\$1,483</b>	<b>\$1,083</b>	<b>\$(360) \$7,611</b>

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Operating income  
\$465 \$88 \$38 \$(4) \$587

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Special charge  
    (482)  
Corporate expenses  
    (42)

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Total operating income  
    \$63

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Depreciation and amortization  
\$37 \$11 \$7 \$ \$55

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Corporate depreciation and amortization  
    5

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Total depreciation and amortization  
    \$60

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Identifiable assets  
\$2,262 \$980 \$555 \$ \$3,797

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General corporate assets  
9,379

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Total assets  
\$13,176

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Three Months Ended July 28, 2000

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Americas	Europe	Asia Pacific -Japan	Eliminations	Consolidated
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(in millions)

Net revenue from unaffiliated customers  
\$5,586 \$1,454 \$630 \$ 7,670  
Transfers between geographic segments  
14 2 2 (18)

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Total net revenue  
\$5,600 \$1,456 \$632 \$(18) \$7,670

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Operating income  
\$663 \$102 \$52 \$ 817

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Corporate expenses



(81)

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Total operating income  
\$736

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Depreciation and amortization  
\$25 \$14 \$6 \$ \$45

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Corporate depreciation and amortization  
11

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Total depreciation and amortization  
\$56

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Identifiable assets  
\$2,928 \$1,089 \$499 \$ \$4,516

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General corporate assets  
8,894

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Total assets  
\$13,410

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Six Months Ended August 3, 2001

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Asia  
Pacific

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Americas Europe -Japan Elimination Consolidated  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 (in millions)

Net revenue from unaffiliated customers  
 \$10,847 \$3,235 \$1,557 \$ \$15,639  
 Transfers between geographic segments  
 11 1 357 (369)

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Total net revenue  
 \$10,858 \$3,236 \$1,914 \$(369) \$15,639

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Operating income  
 \$891 \$219 \$99 \$(4) \$1,205

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Special charge  
 (482)  
 Corporate expenses  
 (72)

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Total operating income  
 \$651

Depreciation and amortization  
 \$78 \$24 \$13 \$ \$115

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Corporate depreciation and amortization  
10

Total depreciation and amortization  
\$125

Identifiable assets  
\$2,262 \$980 \$555 \$ 3,797

General corporate assets  
9,379

Total assets  
\$13,176

Six Months Ended July 28, 2000

Americas	Europe	Asia Pacific -Japan	Elimination	Consolidated
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(in millions)

Net revenue from unaffiliated customers  
\$10,709 \$3,027 \$1,214 \$ 14,950  
Transfers between geographic segments  
29 3 2 (34)

Total net revenue  
\$10,738 \$3,030 \$1,216 \$(34) \$14,950

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Operating income  
\$1,227 \$185 \$99 \$ \$ 1,511

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Corporate expenses  
(150)

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Total operating income  
\$1,361

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Depreciation and amortization  
\$52 \$27 \$11 \$ \$ 90

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Corporate depreciation and amortization  
18

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Total depreciation and amortization  
\$108

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Identifiable assets  
\$2,928 \$1,089 \$499 \$ \$ 4,516

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General corporate assets  
8,894

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Total assets  
\$13,410

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**ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*Statements in this Report that relate to future results and events are based on the Company's current expectations. Actual results in future periods may differ materially from those currently expected or desired because of a number of risks and uncertainties. For a discussion of factors affecting the Company's business and prospects, see Item 1 Business Factors Affecting the Company's Business and Prospects in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2001.*

*All percentage amounts and ratios were calculated using the underlying data in thousands. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the full fiscal year.*

**Results of Operations**

During the second quarter and first six months of fiscal 2002, the Company continued to optimize the profitable (excluding the special charge) share growth strategy it began to execute during the fourth quarter of fiscal 2001. Overall, net unit shipments increased significantly compared to the industry, and the Company widened its lead as the world's No. 1 supplier of computer systems. At the same time soft demand and global economic weakness has continued to result in lower overall technology spending and a highly competitive industry pricing environment. This pricing environment together with the Company's practice of rapidly passing component cost declines to its customers has resulted in lower average revenue per unit, relatively flat to down net revenues on a year-over-year and sequential basis, and downward pressure on gross margins and operating margins. Management currently expects to maintain its strategy of profitable market share growth with a focus on stabilizing overall profitability relative to revenue growth.

The following table sets forth for the periods indicated the percentage of consolidated net revenue represented by certain items in the Company's Condensed Consolidated Statement of Operations.

**Percentage of Consolidated Net Revenue**

Percentage of Consolidated Net Revenue			
Three Months Ended		Six Months Ended	
August 3, 2001	July 28, 2000	August 3, 2001	July 28, 2000

Net revenue:

Americas  
71.0% 72.8% 69.3% 71.6%

Europe  
19.5 19.0 20.7 20.3

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Asia Pacific-Japan  
9.5 8.2 10.0 8.1

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100.0 100.0 100.0 100.0

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Gross margin  
17.5 21.3 17.8 20.9  
Selling, general and administrative  
8.8 10.1 9.0 10.2  
Research, development and engineering  
1.5 1.6 1.5 1.6  
Special charge  
6.4 3.1

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Total operating expenses  
16.7 11.7 13.6 11.8

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Operating income  
0.8 9.6 4.2 9.1  
Investment and other income (loss), net  
(2.7) 1.6 (1.0) 1.7

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Income (loss) before income taxes and  
cumulative effect of change in accounting  
principle

(1.9) 11.2 3.2 10.8

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Net income (loss)

(1.3)% 7.9% 2.3% 7.2%

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### *Net Revenue*

For the second quarter and first six months of fiscal 2002, consolidated net revenue decreased 1% and increased 5%, respectively, over the comparable periods in fiscal 2001 and decreased 5% sequentially. Overall net revenue has been adversely impacted as growth in net unit shipments has been offset by declines in average per-unit revenues.

Net unit shipments for the second quarter grew 19% year-over-year and 1% sequentially as the Company continues to profitably grow market share in all regions and product categories. Net unit shipments of the Company's enterprise systems, which include servers, storage products and workstations, grew 33% over the same period a year ago and 1% sequentially. For the second straight quarter the Company ranked No. 1 in the United States for server shipments. Additionally, during the quarter the Company became the world's No. 1

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supplier of notebook computer systems, as shipments increased 22% compared to the prior year period and decreased 1% sequentially. Desktop shipments increased 18% year-over-year and increased 1% sequentially.

In the Americas region, net revenue declined 3% in the second quarter of fiscal 2002 compared to the same quarter of fiscal 2001, and declined 1% sequentially. Net revenue in the Europe region increased 2% during the second quarter of fiscal 2002 compared to the same period of fiscal 2001, while declining 15% sequentially. In Asia Pacific-Japan, net revenue increased 15% year-over-year and declined 13% sequentially. The market factors that affected the Americas (and the U.S. in particular) in the first quarter—rapidly softening industry unit demand and declining per-unit revenues—spread to Europe and Asia Pacific-Japan in the second quarter. Europe and Asia Pacific-Japan were also negatively impacted by seasonal demand patterns in UK/ Ireland and in Japan, respectively.

Average revenue per unit sold in the second quarter of fiscal year 2002 decreased 17% compared to the same period a year ago and 6% sequentially. This decrease was primarily due to price reductions resulting from component cost declines and the Company's strategy of leveraging its direct-to-customer model to drive profitable market share growth. Management expects that the current pricing environment will likely continue in the near future as the Company and its competitors experience soft demand and continued uncertainty in the overall economy.

### *Gross Margin*

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As a percentage of consolidated net revenue, gross margin decreased from 21.3% in the second quarter of fiscal 2001 to 17.5% in the same period of fiscal 2002, while declining 0.5% sequentially. On a year-to-date basis, gross margin decreased from 20.9% during the first six months of fiscal 2001 to 17.8% during the first six months of fiscal 2002. Most of the year-over-year decrease occurred as a result of intense price competition and the Company's strategy to drive profitable market share growth. Based on the industry, economic and other factors discussed above, the Company currently expects that this gross margin environment will likely continue to be challenging, but the Company's intent is to stabilize operating margins. Management believes that the strength of the Company's direct-to-customer business model, as well as its strong liquidity position, result in the Company being better positioned than its competitors to profitably grow market share in the current business climate.

### *Operating Expenses*

The following table presents certain information regarding the Company's operating expenses during the periods indicated:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>August 3, 2001</b>	<b>July 28, 2000</b>	<b>August 3, 2001</b>	<b>July 28, 2000</b>
<b>Operating Expenses:</b>				
Selling, general and administrative				
\$672 \$774 \$1,409 \$1,524				
Percentage of net revenue				
8.8% 10.1% 9.0% 10.2%				
Research, development and engineering				
\$113 \$124 \$236 \$241				
Percentage of net revenue				
1.5% 1.6% 1.5% 1.6%				
Special charge				
\$482 \$482				
Percentage of net revenue				
6.4% 3.1%				
Total operating expenses				
\$1,267 \$898 \$2,127 \$1,765				
Percentage of net revenue				
16.7% 11.7% 13.6% 11.8%				

Selling, general and administrative expenses, excluding the special charge, decreased in absolute dollar amounts and as a percentage of revenue for the first six months and the second quarter of fiscal 2002 from the same periods of fiscal 2001. As revenue growth expectations were trimmed during fiscal 2001 and into 2002, management has taken steps to manage expenses relative to actual growth rates, and as a result, selling, general and administrative expenses as a percentage of net revenues have declined for five consecutive quarters, excluding special charges.

Management believes that the Company will continue to improve efficiencies and control selling, general and administrative expenses relative to revenue growth to continue to optimize overall profitability and grow market share. During the second quarter of fiscal 2002, the Company undertook a program to reduce its

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workforce and to exit certain activities to further align its cost structure with current economic and industry conditions. A special charge of \$482 million related to these actions was recorded in operating expenses in the second quarter. This charge included \$134 million related to employee separations, \$169 million related to facility consolidations, and \$179 million of other asset impairments and exit costs. Other asset impairments and exit costs include \$75 million to write down goodwill and intellectual property associated with the acquisition of ConvergeNet Technologies, Inc. to current fair value.



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In addition to the \$482 million charge, the Company also recorded an impairment charge of \$260 million during the second quarter reflecting other than temporary declines in fair value of certain investments. This charge is reflected in investment and other income (loss), net.

The Company announced plans to eliminate approximately 4,000 employee positions (5,700 including the fiscal 2001 special charge) worldwide from various business functions and job classes. Substantially all of the employees have been separated from the Company. These actions, together with those undertaken in the fourth quarter of the prior fiscal year, are expected to result in annual savings of nearly \$500 million. These savings are expected to be partially reinvested via pricing, selling incentives, and research and development activities to support continued unit growth in the Company's enterprise systems. The Company will continue to manage its operating expenses relative to expected revenue growth, and will undertake additional cost-cutting actions if necessary to enable it to continue to optimize profitability and grow market share.

The Company continues to invest in research, development and engineering activities to develop and introduce new products and to support its continued goal of improving and developing efficient procurement, manufacturing and distribution processes. For the three- and six-months ended August 3, 2001, research, development and engineering expenses decreased in absolute dollars and as a percent of revenue as compared to the prior year periods as the Company managed its spending in light of current industry conditions. The Company expects to continue to invest in research, development and engineering activity, with an increasing emphasis on enterprise products, including servers and storage.

### *Investment and Other Income (Loss), Net*

Investment and other income (loss), net primarily includes interest income and expense, gains (losses) from the sale of investments, impairment charges for other than temporary declines in fair value of investments and foreign exchange transaction gains and losses. For the three- and six-months ended August 3, 2001, investment and other income (loss), net, was (\$207) million and (\$149) million, respectively, including the previously mentioned impairment charges of \$260 million to write down the carrying value of certain investments.

### *Income Taxes*

The Company's effective tax rate was 28% for six-months ended August 3, 2001 as compared to 30% for the second quarter and first six months of fiscal 2001. The differences in the effective tax rates result primarily from changes in the geographical distribution of taxable income. The effective tax rate of 30% for the second quarter of fiscal 2002 results from revising the expected full year fiscal 2002 effective tax rate to 28%. The Company's effective tax rate is lower than the U.S. federal statutory rate of 35%, principally because of the Company's geographical distribution of taxable income.

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### **Liquidity and Capital Resources**

The following table presents selected financial statistics and information (dollars in millions):

	<b>August 3, 2001</b>	<b>February 2, 2001</b>
Cash and investments	\$7,806	\$7,856
Working capital		
\$1,568 \$2,948		
Days of sales in accounts receivable		
32 32		
Days of supply in inventory		
4 5		
Days in accounts payable		
66 58		
<hr/>		
Cash conversion cycle		
(30) (21)		

At August 3, 2001, the Company had approximately \$7.8 billion of cash and investments. Of that amount, investments in equity securities totaled approximately \$456 million with cost approximating fair value. The principal source of the Company's cash is from its operations. During the first half of fiscal 2002, the Company generated \$1.8 billion in cash flows from operating activities, resulting primarily from the Company's net income, efficient asset management evidenced by a Company record cash conversion cycle of negative 30 days (an improvement of 9 days from the beginning of the fiscal year), and income tax benefits that resulted from the exercise of employee stock options. Capital expenditures during the first six months of fiscal 2002 were \$145 million. For all of fiscal year 2002, similar capital expenditures are currently expected to be in the range of \$300 to \$350 million.

The Company maintains master lease facilities providing the capacity to fund up to \$1.2 billion. The combined facilities provide for the ability of the Company to lease certain real property, buildings and equipment to be constructed or acquired. At August 3, 2001, \$634 million of the combined facilities had been utilized.

The Company has a share repurchase program that it uses primarily to manage the dilution resulting from shares issued under the Company's employee stock plans. As of the end of the first quarter of fiscal 2002, the Company had cumulatively repurchased 905 million shares out of its authorized one billion share repurchase program, for an aggregate cost of \$8.3 billion. During the second quarter of fiscal 2002, the Company repurchased 17 million shares of common stock for an aggregate cost of \$739 million. The Company utilizes equity instrument contracts to facilitate its repurchase of common stock. At August 3, 2001, the Company held equity options and forwards that allow for the purchase of 56 million shares of common stock at an average price of \$51 per share. At August 3, 2001, the Company also had outstanding put obligations covering 81 million shares with an average exercise price of \$44 per share. The equity instruments are exercisable only at the date of expiration and expire at various dates through the first quarter of fiscal 2004. The outstanding put obligations and forwards at August 3, 2001 permitted net share settlement at the Company's option and, therefore, did not result in a put obligation liability on the accompanying Condensed Consolidated Statement of Financial Position.

Management believes that the Company's cash provided from operations will continue to be sufficient to support its operations and capital requirements. The Company anticipates that it will continue to utilize its strong liquidity and cash flows to expand the Company's presence in high-end systems (servers, storage, notebooks, and complimentary products), expand geographically, improve the efficiency and effectiveness of its direct-to-customer model, and repurchase its common stock.

#### **Factors Affecting the Company's Business and Prospects**

There are numerous factors that affect the Company's business and the results of its operations. These factors include general economic and business conditions; the level of demand for the Company's products and services; the level and intensity of competition in the technology industry and the pricing pressures that have resulted; the ability of the Company to timely and effectively manage periodic product transitions, as well as component availability and cost; the ability of the Company to develop new products based on new or evolving technology and the market's acceptance of those products; the ability of the Company to manage its inventory levels to minimize excess inventory, declining inventory values and obsolescence; the product, customer and geographic sales mix of any particular period; the Company's ability to recover its investments in venture capital activities; and the Company's ability to effectively manage its operating costs. For a discussion of these and other factors affecting the Company's business and prospects, see Item 1 Business Factors

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Affecting the Company's Business and Prospects in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2001.

#### **ITEM 3. *Quantitative and Qualitative Disclosures About Market Risk***

For a description of the Company's market risks, see Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Market Risk in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2001.

**Table of Contents****PART II OTHER INFORMATION****ITEM 1. Legal Proceedings**

The Company is subject to various legal proceedings and claims arising in the ordinary course of business. The Company's management does not expect that the outcome in any of these legal proceedings, individually or collectively, will have a material adverse effect on the Company's financial condition, results of operations or cash flows.

**ITEM 4. Submission of Matters to a Vote of Security Holders**

The annual meeting of the Company's stockholders was held on July 19, 2001. At that meeting, one proposal was submitted to a vote of the Company's stockholders to elect four Class I directors (with Donald J. Carty, William H. Gray III, Judy C. Lewent and Thomas W. Luce III being the nominees). At the close of business on the record date for the meeting (which was May 25, 2001), there were 2,605,412,659 shares of common stock outstanding and entitled to be voted at the meeting. Holders of 2,220,360,334 shares of common stock (representing a like number of votes) were present at the meeting, either in person or by proxy. The following table sets forth the results of the voting:

Proposal	Number of Votes	
	For	Withheld
Proposal 1. Election of directors:		
Donald J. Carty	2,201,907,071	18,453,263
William H. Gray III	2,201,545,833	18,814,501
Judy C. Lewent	2,200,753,412	19,606,922
Thomas W. Luce III	2,163,539,062	56,821,272

Consequently, the stockholders elected each of the directors nominated by the Board.

**ITEM 6. Exhibits and Reports on Form 8-K**

## (a) Exhibits.

Exhibit No.	Description of Exhibit
3.1	Restated Certificate of Incorporation, filed July 16, 2001.

## (b) Reports on Form 8-K.

None.

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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 COMPUTER CORPORATION

September 17, 2001

/s/ JAMES M. SCHNEIDER

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James M. Schneider  
*Senior Vice President and Chief  
Financial Officer*  
(On behalf of the registrant and as principal  
accounting and financial officer)

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**EXHIBIT INDEX**

<b>EXHIBIT NUMBER</b>	<b>DESCRIPTION</b>
3.1	Restated Certificate of Incorporation, filed July 16, 2001.