

ALTRIA GROUP, INC.
Form DEF 14A
April 09, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ☒ x

Filed by a Party other than the Registrant ☐ ..

Check the appropriate box:

- ☐ .. Preliminary Proxy Statement
- ☐ .. Confidential, For Use of the Commission Only(as permitted by Rule 14a-6(e)(2))
- ☒ x Definitive Proxy Statement
- ☐ .. Definitive Additional Materials
- ☐ .. Soliciting Material Under Rule 14a-12

Altria Group, Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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(1) Title of each class of securities to which transaction applies:

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(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed: April 9, 2010

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ALTRIA GROUP, INC.

MICHAEL E. SZYMANCZYK
CHAIRMAN OF THE BOARD

6601 WEST BROAD STREET
RICHMOND, VIRGINIA 23230

April 9, 2010

Dear Fellow Shareholder:

It is my pleasure to invite you to join us at the 2010 Annual Meeting of Shareholders of Altria Group, Inc. to be held on Thursday, May 20, 2010 at 9:00 a.m., at the Greater Richmond Convention Center, 403 North 3rd Street, Richmond, Virginia 23219.

At this year's meeting, we will vote on the election of ten directors, the approval of the 2010 Performance Incentive Plan, the ratification of PricewaterhouseCoopers LLP's selection as the Company's independent auditors and, if properly presented, two proposals from shareholders. There will also be a report on the Company's business, and shareholders will have an opportunity to ask questions.

We anticipate that a large number of shareholders will attend the meeting. Because seating is limited, you may bring only one immediate family member who is 21 years of age or older as a guest. To attend the meeting, you must present an admission ticket and government-issued photographic identification. **Please note that you must submit a request for an admission ticket. To request an admission ticket, please follow the instructions set forth on page 2 in response to question 4.**

The meeting facilities will open at 7:30 a.m. We suggest you arrive early to facilitate your registration and security clearance. Those needing special assistance at the meeting are requested to write to the Company's Corporate Secretary at 6601 West Broad Street, Richmond, Virginia 23230. For your comfort and security, you will not be permitted to bring any packages, briefcases, large pocketbooks or bags into the meeting. Also, cellular and digital phones, audio tape recorders, laptops, video and still cameras, pagers and pets will not be permitted into the meeting. We thank you in advance for your patience and cooperation with these rules. While they may seem strict to some, they assist us in conducting a safe and orderly meeting and are in everyone's interest.

Attached you will find a notice of meeting and proxy statement that contains additional information about the meeting, including the methods that you can use to vote your proxy, such as the telephone or Internet. We are pleased to be using the U.S. Securities and Exchange Commission rule that allows companies to furnish proxy materials to their shareholders primarily over the Internet. We believe this process expedites shareholders' receipt of proxy materials, lowers the costs of our annual meeting and helps conserve natural resources. Accordingly, we are mailing to many of our shareholders a Notice of Internet Availability of Proxy Materials, rather than a paper copy of the Proxy Statement and our 2009 Annual Report to Shareholders. The Notice contains instructions on how to access the proxy materials, vote online and instructions on how shareholders can receive a paper copy of our proxy materials if they wish to do so.

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Your vote is important. I encourage you to sign and return your proxy card, or use telephone or Internet voting prior to the meeting, so that your shares of common stock will be represented and voted at the meeting even if you cannot attend.

Sincerely,

For further information about the Annual Meeting,

please call 1-804-484-8838

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ALTRIA GROUP, INC.

6601 West Broad Street

Richmond, VA 23230

**NOTICE OF 2010 ANNUAL MEETING OF
SHAREHOLDERS OF ALTRIA GROUP, INC.**

TIME:	9:00 a.m. on Thursday, May 20, 2010
PLACE:	The Greater Richmond Convention Center 403 North 3 rd Street Richmond, Virginia
ITEMS OF BUSINESS:	1) To elect ten directors. 2) To approve the 2010 Performance Incentive Plan. 3) To ratify the selection of PricewaterhouseCoopers LLP as independent auditors for the Company for the fiscal year ending December 31, 2010. 4) To vote on two shareholder proposals, if properly presented at the meeting. 5) To transact other business properly coming before the meeting.
WHO CAN VOTE:	Shareholders of record on March 29, 2010.
2009 ANNUAL REPORT:	A copy of our 2009 Annual Report is enclosed.
DATE OF MAILING:	This notice and the proxy statement are first being mailed to shareholders on or about April 9, 2010. W. Hildebrandt Surgner, Jr. <i>Corporate Secretary</i>

April 9, 2010

WE URGE EACH SHAREHOLDER TO PROMPTLY SIGN AND RETURN THE ENCLOSED PROXY CARD OR TO USE TELEPHONE OR INTERNET VOTING. SEE OUR QUESTION AND ANSWER SECTION FOR INFORMATION ABOUT VOTING BY TELEPHONE OR INTERNET, HOW TO REVOKE A PROXY, AND HOW TO VOTE YOUR SHARES OF COMMON STOCK IN PERSON.

PLEASE NOTE THAT YOU MUST SUBMIT A REQUEST FOR AN ADMISSION TICKET. TO OBTAIN AN ADMISSION TICKET, PLEASE FOLLOW THE INSTRUCTIONS SET FORTH ON PAGE 2 IN RESPONSE TO QUESTION 4.

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Important Notice Regarding the Availability of Proxy Materials

For the Shareholder Meeting to be Held on May 20, 2010

The Company's Proxy Statement and 2009 Annual Report to Shareholders are available at

<http://www.altria.com/proxy>

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ALTRIA GROUP, INC.
6601 WEST BROAD STREET
RICHMOND, VIRGINIA 23230

April 9, 2010

PROXY STATEMENT
FOR ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON MAY 20, 2010

Our Board of Directors is furnishing you with this proxy statement to solicit proxies on its behalf to be voted at the 2010 Annual Meeting of Shareholders of Altria Group, Inc. (the "Company") at 9:00 a.m., at the Greater Richmond Convention Center, 403 North 1st Street, Richmond, Virginia. The proxies also may be voted at any adjournments or postponements of the meeting.

We are first sending the proxy materials to shareholders on or about April 9, 2010.

All properly executed written proxies, and all properly completed proxies submitted by telephone or by the Internet, that are delivered pursuant to this solicitation will be voted at the meeting in accordance with the directions given in the proxy, unless the proxy is revoked before the meeting.

Only shareholders of record of shares of common stock at the close of business on March 29, 2010 (the "record date") are entitled to notice of and to vote at the meeting, or at adjournments or postponements of the meeting. Each shareholder of record on the record date is entitled to one vote for each share of common stock held. On March 29, 2010, there were 2,082,466,850 shares of common stock issued and outstanding.

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**QUESTIONS AND ANSWERS ABOUT
THE MEETING AND VOTING**

1. WHAT IS A PROXY?

It is your legal designation of another person to vote the stock you own. That other person is called a proxy. If you designate someone as your proxy in a written document, that document also is called a proxy or a proxy card. Michael E. Szymanczyk and Denise F. Keane have been designated as proxies for the 2010 Annual Meeting of Shareholders.

2. WHAT IS THE RECORD DATE AND WHAT DOES IT MEAN?

The record date for the 2010 Annual Meeting of Shareholders is March 29, 2010. The record date is established by the Board of Directors as required by Virginia law. Shareholders of record (registered shareholders and street name holders) at the close of business on the record date are entitled to:

- (a) receive notice of the meeting; and
- (b) vote at the meeting and any adjournments or postponements of the meeting.

3. WHAT IS THE DIFFERENCE BETWEEN A REGISTERED SHAREHOLDER AND A SHAREHOLDER WHO HOLDS STOCK IN STREET NAME?

If your shares of stock are registered in your name on the books and records of our transfer agent, you are a registered shareholder.

If your shares of stock are held for you in the name of your broker or bank, your shares are held in street name. The answer to Question 16 describes brokers' discretionary voting authority and when your bank or broker is permitted to vote your shares of stock without instructions from you.

It is important that you vote your shares if you are a registered shareholder and, if you hold shares in street name, that you provide appropriate voting instructions to your broker or bank as discussed in the answer to Question 16.

4. HOW DO I OBTAIN ADMISSION TO THE MEETING?

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To obtain admission to the meeting, you must request an admission ticket. Because seating is limited, you may bring only one immediate family member as a guest. As we will be discussing our tobacco products at the meeting, all immediate family member guests must be over 21 years of age. In addition, all meeting attendees must present government-issued photographic identification at the meeting. Please submit your request for an admission ticket by Monday, May 3, 2010, by mailing or faxing a request to the Company's Corporate Secretary at 6601 West Broad Street, Richmond, Virginia 23230, facsimile: 1-800-352-6172 (from within the United States) or 1-914-272-0985 (from outside the United States). Please include the following information:

- your name and mailing address;
- whether you need special assistance at the meeting;
- the name and age of your immediate family member, if one will accompany you; and
- if your shares are held for you in the name of your broker or bank, evidence of your stock ownership (such as a letter from your broker or bank or a photocopy of a current brokerage or other account statement) as of March 29, 2010.

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5. WHAT ARE THE DIFFERENT METHODS THAT I CAN USE TO VOTE MY SHARES OF COMMON STOCK?

(a) *By Telephone and Internet Proxy:* All registered shareholders of record can vote their shares of common stock by touchtone telephone from the United States and Canada, using the toll-free telephone number on the proxy card, or by the Internet, using the procedures and instructions described on the proxy card and other enclosures. Street name holders of record may vote by telephone or the Internet if their banks or brokers make those methods available. If that is the case, each bank or broker will enclose instructions with the proxy statement. The telephone and Internet voting procedures, including the use of control numbers, are designed to authenticate shareholders' identities, to allow shareholders to vote their shares, and to confirm that their instructions have been properly recorded.

(b) *In Writing:* All shareholders of record also can vote by mailing their completed and signed proxy card (in the case of registered shareholders) or their completed and signed vote instruction form (in the case of street name holders).

(c) *In Person:* All shareholders may vote in person at the meeting (unless they are street name holders without a legal proxy).

6. HOW CAN I REVOKE A PROXY?

You can revoke a proxy prior to the completion of voting at the meeting by:

(a) giving written notice to the Corporate Secretary of the Company;

(b) delivering a later-dated proxy; or

(c) voting in person at the meeting.

7. ARE VOTES CONFIDENTIAL? WHO COUNTS THE VOTES?

We will continue our long-standing practice of holding the votes of each shareholder in confidence from directors, officers and employees except: (a) as necessary to meet applicable legal requirements and to assert or defend claims for or against the Company, (b) in case of a contested proxy solicitation, (c) if a shareholder makes a written comment on the proxy card or otherwise communicates his or her vote to management, or (d) to allow the independent inspectors of election to certify the results of the vote. We will also continue, as we have for many years, to retain an independent tabulator to receive and tabulate the proxies and independent inspectors of election to certify the results.

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8. WHAT ARE THE VOTING CHOICES WHEN VOTING ON DIRECTOR NOMINEES, AND WHAT VOTE IS NEEDED TO ELECT DIRECTORS?

When voting on the election of director nominees to serve until the 2011 Annual Meeting of Shareholders, shareholders may:

- (a) vote in favor of a nominee;
- (b) vote against a nominee; or
- (c) abstain from voting on a nominee.

Directors will be elected by a majority of the votes cast. A majority of the votes cast means that a number of votes **FOR** a director nominee must exceed the number of votes **AGAINST** that nominee.

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Any director who receives a greater number of votes AGAINST his or her election than votes FOR such election shall offer to tender his or her resignation to the Board. The Nominating, Corporate Governance and Social Responsibility Committee shall consider the offer and recommend to the Board whether to accept or reject the offer. The full Board will consider all factors it deems relevant to the best interests of the Company, make a determination and publicly disclose its decision and rationale within 90 days after confirmation of the election results.

The Board recommends a vote FOR all of the nominees.

9. WHAT ARE THE VOTING CHOICES WHEN VOTING ON THE 2010 PERFORMANCE INCENTIVE PLAN AND WHAT VOTE IS NEEDED TO APPROVE THE PLAN?

When voting on the 2010 Performance Incentive Plan, shareholders may:

- (a) vote in favor of the plan;
- (b) vote against the plan; or
- (c) abstain from voting on the plan.

The plan will be approved if the votes cast FOR the plan exceed the votes cast AGAINST.

The Board recommends a vote FOR this proposal.

10. WHAT ARE THE VOTING CHOICES WHEN VOTING ON THE RATIFICATION OF THE SELECTION OF PRICEWATERHOUSECOOPERS LLP, AND WHAT VOTE IS NEEDED TO RATIFY THEIR SELECTION?

When voting on the ratification of the selection of PricewaterhouseCoopers LLP as independent auditors for the Company, shareholders may:

- (a) vote in favor of the ratification;
- (b) vote against the ratification; or

(c) abstain from voting on the ratification.

The selection of the independent auditors will be ratified if the votes cast FOR exceed the votes cast AGAINST.

The Board recommends a vote FOR this proposal.

11. WHAT ARE THE VOTING CHOICES WHEN VOTING ON EACH SHAREHOLDER PROPOSAL PROPERLY PRESENTED AT THE MEETING AND WHAT VOTE IS NEEDED TO APPROVE ANY OF THESE SHAREHOLDER PROPOSALS?

A separate vote will be held on each shareholder proposal that is properly presented at the meeting. When voting on each of the shareholder proposals, shareholders may:

(a) vote in favor of the proposal;

(b) vote against the proposal; or

(c) abstain from voting on the proposal.

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A shareholder proposal will be approved if the votes cast **FOR** the proposal exceed the votes cast **AGAINST**.

The Board recommends a vote **AGAINST** each of the shareholder proposals.

12. WHAT IF A SHAREHOLDER DOES NOT SPECIFY A CHOICE FOR A MATTER WHEN RETURNING A PROXY?

Shareholders should specify their choice for each matter on the enclosed proxy. If no specific instructions are given, proxies that are signed and returned will be voted **FOR** the election of all director nominees, **FOR** the approval of the 2010 Performance Incentive Plan, **FOR** the proposal to ratify the selection of PricewaterhouseCoopers LLP and **AGAINST** each of the shareholder proposals.

13. WHO IS ENTITLED TO VOTE?

You may vote if you owned stock as of the close of business on March 29, 2010. Each share of common stock is entitled to one vote. As of March 29, 2010, we had 2,082,466,850 shares of common stock outstanding.

14. HOW DO I VOTE IF I PARTICIPATE IN THE DIVIDEND REINVESTMENT PLAN?

The proxy card you have received includes your dividend reinvestment plan shares. You may vote your shares through the Internet, by telephone or by mail, all as described on the enclosed proxy card.

15. WHAT DOES IT MEAN IF I RECEIVE MORE THAN ONE PROXY CARD?

It means that you have multiple accounts with brokers and/or our transfer agent. Please vote all of these shares. We recommend that you contact your broker and/or our transfer agent to consolidate as many accounts as possible under the same name and address. Our transfer agent is Computershare Trust Company, N.A., P.O. Box 43078, Providence, RI 02940-3078 or you can reach Computershare at 1-800-442-0077 (from within the United States or Canada) or 1-781-575-3572 (from outside the United States or Canada).

16. WILL MY SHARES BE VOTED IF I DO NOT PROVIDE MY PROXY?

If you are the registered shareholder, your shares will not be voted if you do not provide your proxy unless you vote in person at the meeting. It is therefore important that you vote your shares. If your shares are held in street name (see Question 3), your shares may be voted by your brokerage firm when you do not provide your proxy, but only under certain circumstances as described in the following paragraphs of this Question 16.

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Under the New York Stock Exchange rules, shares held in the name of your brokerage firm may be voted by your brokerage firm on certain routine matters even if you do not provide the brokerage firm with voting instructions. The ratification of the selection of PricewaterhouseCoopers LLP as independent auditors of the Company is considered a routine matter for which brokerage firms may vote unvoted shares.

The other proposals to be voted on at our meeting, specifically the election of director nominees, the shareholder proposals and the approval of the 2010 Performance Incentive Plan, are not considered routine under New York Stock Exchange rules. When a proposal is not a routine matter and the brokerage firm has not received voting instructions from the beneficial owner of the shares with respect to that proposal, the brokerage firm cannot vote the shares on that proposal. This is called a broker non-vote. *It is important therefore that you provide appropriate instructions to your brokerage firm with respect to your vote on these non-routine matters.*

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17. ARE ABSTENTIONS AND BROKER NON-VOTES COUNTED?

Abstentions and broker non-votes will not be included in vote totals and will not affect the outcome of the vote at the 2010 Annual Meeting of Shareholders.

18. MAY SHAREHOLDERS ASK QUESTIONS AT THE MEETING?

Yes. The Chairman will answer shareholders' questions of general interest during the limited question and answer period of the meeting. In order to provide an opportunity for everyone who wishes to ask a question, shareholders will be limited to two (2) minutes. Shareholders may ask a question a second time only after all others have had their turn and only if time allows. When speaking, shareholders must direct questions to the Chairman and confine their questions to matters that relate directly to the business of the meeting.

19. HOW MANY VOTES MUST BE PRESENT TO HOLD THE MEETING?

Your shares are counted as present at the meeting if you attend the meeting and vote in person or if you properly return a proxy by Internet, telephone or mail. In order for us to conduct our meeting, a majority of our outstanding shares of common stock as of March 29, 2010, must be present in person or by proxy at the meeting. This is referred to as a quorum. Abstentions and shares of record held by a broker or its nominee (Broker Shares) that are voted on any matter are included in determining the number of votes present. Broker Shares that are not voted on any matter will not be included in determining whether a quorum is present.

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BOARD OF DIRECTORS

Board of Directors

The primary responsibility of the Board of Directors (the "Board") is to foster the long-term success of the Company. The Board has responsibility for establishing broad corporate policies, setting strategic direction, and overseeing management, which is responsible for the day-to-day operations of the Company. In fulfilling this role, each director must exercise his or her good faith business judgment of the best interests of the Company.

The Board holds regular meetings typically during the months of January, February, May, August, October and December, and special meetings are held when necessary. The organizational meeting follows the Annual Meeting of Shareholders. One of the meetings is primarily devoted to reviewing the Company's strategic plan. The Board held six meetings in 2009. The Board meets in executive session at every Board meeting. Directors are expected to attend Board meetings, the Annual Meeting of Shareholders and meetings of the Committees on which they serve, with the understanding that on occasion a director may be unable to attend a meeting. During 2009, all nominees for director attended at least 75% of the aggregate number of meetings of the Board and all Committees on which they served. In addition, all directors attended the 2009 Annual Meeting of Shareholders. Mr. Casteen joined the Board in February 2010.

The Board has adopted Corporate Governance Guidelines. In addition, the Company has adopted the Altria Code of Conduct for Compliance and Integrity, which applies to all of its employees, including its principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions, as well as a code of business conduct and ethics that applies to the members of the Company's Board. The Board has also adopted a policy with regard to reviewing certain transactions in which the Company is a participant and an officer, director or nominee for director has, had or may have a direct or indirect material interest. All of these documents are available on the Company's website at www.altria.com/governance.

Information on the Company's website is not, and shall not be deemed to be, a part of this proxy statement or incorporated into any other filings the Company makes with the Securities and Exchange Commission.

Board Leadership Structure

The Board believes that it is important to retain its flexibility to allocate the responsibilities of the positions of the Chairman of the Board (the "Chairman") and Chief Executive Officer in the way that it believes is in the best interests of the Company. After due consideration by the Nominating, Corporate Governance and Social Responsibility Committee and the Board, the Board has concluded that combining the roles of Chairman and Chief Executive Officer is in the best interests of the Company. The Company's Mission is to own and develop financially disciplined businesses that are leaders in responsibly providing adult tobacco and wine consumers with superior branded products. The Board believes that the combination of the roles of Chairman and Chief Executive Officer promotes the Board's and executive management's pursuit of the Company's Mission by allowing the senior-most executive with accountability for the Company's day-to-day operations, who also possesses significant business and industry knowledge, to set Board meeting agendas (in consultation with the Presiding Director) and to lead the related discussions. The Board considers this structure to be particularly appropriate for the Company given the unique challenges that the Company has faced and continues to face in light of its lines of business, particularly domestic tobacco.

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The Board does not believe that separating these roles would enhance either the independence of the Board or its effectiveness in discharging its responsibilities. The Board's strict adherence to sound

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corporate governance practices, as reflected in the Company's Corporate Governance Guidelines, has promoted, and continues to promote, the effective and independent exercise of Board leadership for the Company and its shareholders. Non-management directors convene at each Board meeting in executive session. Moreover, the non-management directors annually elect one independent director to be the Presiding Director. The Presiding Director is Robert E. R. Huntley. The Presiding Director presides over executive sessions of the non-management directors and at all meetings at which the Chairman is not present; calls meetings of the non-management directors as he or she deems necessary; serves as a liaison between the Chairman and the non-management directors; approves agendas and schedules for Board meetings; advises the Chairman of the Board's informational needs and approves information sent to the Board; together with the Chair of the Compensation Committee, communicates goals and objectives to the Chairman and Chief Executive Officer and the results of the evaluation of his performance; and is available for consultation and communication if requested by major shareholders. The Presiding Director is invited to attend all meetings of Committees of the Board of which he or she is not a member.

Communications with the Board

Shareholders and other interested parties who wish to communicate with the Board may do so by writing to the Presiding Director, Board of Directors of Altria Group, Inc., 6601 West Broad Street, Richmond, Virginia 23230. The non-management directors have established procedures for the handling of communications from shareholders and other interested parties and directed the Corporate Secretary to act as their agent in processing any communications received. All communications that relate to matters that are within the scope of the responsibilities of the Board and its Committees are to be forwarded to the Presiding Director. Communications that relate to matters that are within the responsibility of one of the Board Committees are also to be forwarded to the Chair of the appropriate Committee. Communications that relate to ordinary business matters that are not within the scope of the Board's responsibilities, such as customer complaints, are to be sent to the appropriate subsidiary. Solicitations, junk mail and obviously frivolous or inappropriate communications are not to be forwarded, but will be made available to any non-management director who wishes to review them.

Committees of the Board

The Board has established various separately-designated standing committees of the Board (the "Committees") to assist it with the performance of its responsibilities. These Committees and their members are listed below. The Board designates the members of these Committees and the Committee Chairs annually at its organizational meeting following the Annual Meeting of Shareholders, based on the recommendations of the Nominating, Corporate Governance and Social Responsibility Committee. The Board has adopted written charters for each of these Committees and these charters are available on the Company's website at www.altria.com/governance. The Chair of each Committee develops the agenda for that Committee and determines the frequency and length of Committee meetings.

The **Audit Committee** consists entirely of non-management directors all of whom the Board has determined are independent within the meaning of the listing standards of the New York Stock Exchange and Rule 10A-3 of the Securities Exchange Act of 1934, as amended. Its responsibilities are set forth in the Audit Committee Charter, which is available on the Company's website at www.altria.com/governance. The Committee was established pursuant to Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The Committee's responsibility is to assist the Board in its oversight of (i) the Company's financial statements and financial reporting processes and systems of internal control, (ii) the qualifications, independence and performance of the Company's independent auditors, (iii) the internal audit function and (iv) the Company's compliance with legal and regulatory requirements. The Committee is also responsible for preparing the Audit Committee Report that the

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rules of the Securities and Exchange Commission require the Company to include in its proxy statement. The Committee met seven times in 2009. The current members of the Committee are: George Muñoz (Chair); Elizabeth E. Bailey; Thomas F. Farrell II; Robert E. R. Huntley; and Thomas W. Jones. See pages 61 to 62 for further matters related to the Audit Committee, including its Report for the year ended 2009.

The Board has determined that all members of the Audit Committee are financially literate and that George Muñoz and at least one other member of the Committee are audit committee financial experts within the meaning set forth in the regulations of the Securities and Exchange Commission. No member of the Audit Committee received any payments in 2009 from Altria Group, Inc. or its subsidiaries other than compensation received as a director of Altria Group, Inc.

The **Compensation Committee** consists entirely of non-management directors all of whom the Board has determined are independent within the meaning of the listing standards of the New York Stock Exchange; are non-employee directors for the purposes of Rule 16b-3 of the Securities Exchange Act of 1934; and satisfy the requirements of Section 162(m) of the Internal Revenue Code. Its responsibilities are set forth in the Compensation Committee Charter, which is available on the Company's website at www.altria.com/governance. The Committee discharges the Board's responsibilities relating to executive compensation (including the compensation of the Chief Executive Officer), produces an annual Compensation Committee report to be included in the Company's proxy statement and reviews the succession plans for the chief executive officer and other senior executives. In addition, the Committee reviews and makes recommendations regarding compensation disclosures to be provided in the Company's Securities and Exchange Commission filings, including the Compensation Discussion and Analysis and narrative descriptions in the Committee's disclosure of its procedures in determining executive compensation. This Committee met five times in 2009. The current members of the Committee are: Thomas F. Farrell II (Chair); Elizabeth E. Bailey; Gerald L. Baliles; Robert E. R. Huntley; and Thomas W. Jones. See pages 24 through 26 for further matters related to the Compensation Committee, including a discussion of its procedures and its report on the Compensation Discussion and Analysis appearing on pages 27 through 60.

The **Executive Committee** has the responsibilities set forth in the Executive Committee Charter, which is available on the Company's website at www.altria.com/governance, and meets as the Chairman concludes is necessary. The Committee has authority to act for the Board during intervals between Board meetings to the extent permitted by law. This Committee did not meet in 2009. The current members of the Committee are: Michael E. Szymanczyk (Chair); Elizabeth E. Bailey; Robert E. R. Huntley; Thomas W. Jones; and George Muñoz.

The **Finance Committee** has the responsibilities set forth in the Finance Committee Charter, which is available on the Company's website at www.altria.com/governance. The Committee monitors the Company's financial condition, oversees the sources and uses of cash flow and the investment of certain employee benefit plan assets and advises the Board with respect to financing needs, dividend policy, share repurchase programs and other financial matters. This Committee met four times in 2009. The current members of the Committee are: Thomas W. Jones (Chair); Elizabeth E. Bailey; Dinyar S. Devitre; Robert E. R. Huntley; George Muñoz; and Nabil Y. Sakkab.

The **Innovation Committee** has the responsibilities set forth in the Innovation Committee Charter, which is available on the Company's website at www.altria.com/governance. The Committee assists the Board in its oversight of the strategic goals and objectives of the Company's research, development and engineering programs and technological and other innovation initiatives. This Committee met four times in 2009. The current members of the Committee are: Nabil Y. Sakkab (Chair); Gerald L. Baliles; Dinyar S. Devitre; and George Muñoz.

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The **Nominating, Corporate Governance and Social Responsibility Committee** consists entirely of non-management directors all of whom the Board has determined are independent within the meaning of the listing standards of the New York Stock Exchange. This Committee has the responsibilities set forth in the Nominating, Corporate Governance and Social Responsibility Committee Charter, which is available on the Company's website at www.altria.com/governance. The Committee identifies individuals qualified to become Board members consistent with the criteria approved by the Board and recommends a slate of nominees for election at each annual meeting of shareholders; makes recommendations to the Board concerning the appropriate size, function, needs and composition of the Board and its Committees; advises the Board on corporate governance matters, including developing and recommending to the Board the Company's corporate governance principles; oversees the self-evaluation process of the Board and its Committees; and provides oversight of the Company's public affairs, corporate reputation and societal alignment strategies. This Committee met five times in 2009. The current members of the Committee are: Elizabeth E. Bailey (Chair); Gerald L. Baliles; Thomas F. Farrell II; Robert E. R. Huntley; George Muñoz; and Nabil Y. Sakkab. See page 11 for a description of the process the Nominating, Corporate Governance and Social Responsibility Committee follows in nominating directors.

The Board's Risk Management Oversight Role

The Board, both acting as a full Board and through its Committees, plays an important oversight role in the Company's risk management processes. Regular Board and Committee meetings cover multiple days and include site visits to Company subsidiary locations both in and outside the Company's Richmond, Virginia headquarters. Management from different Company subsidiaries and business functions attend each meeting. At these meetings and in communications between Board meetings, management consults directly with the Board and its Committees about operational risks facing the businesses. Similarly, the Board, both directly and through the Audit Committee, receives updates at each meeting on legal and regulatory developments, thereby reviewing the Company's management of legal and regulatory risk. In addition, reports to the Audit Committee at each of its meetings by the Chief Compliance Officer and the Company's compliance and corporate audit groups provide insight into the Company's risk assessment and risk management policies and processes. The Audit Committee and the Finance Committee oversee the Company's management of its financial and liquidity risks through interaction at each meeting with the Chief Financial Officer and management from financial, accounting, auditing and treasury functions, while the Nominating, Corporate Governance and Social Responsibility Committee, through its interaction with functions responsible for the Company's societal alignment strategies, oversees the ways in which the Company manages reputational risk. The Compensation Committee, as set forth in more detail in the Role of the Compensation Committee section of the Compensation Discussion and Analysis (page 28), considers the extent to which the executive compensation program may create risk for the Company. The Innovation Committee oversees the Company's management of the risks associated with technology, research and development, including intellectual property. Each Committee provides a report to the full Board following each Committee meeting. The Board believes it has in place effective processes to oversee the material risks facing the Company and its businesses and that these processes are consistent with, and provide additional support for, the current leadership structure of the Board.

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ELECTION OF DIRECTORS

Process for Nominating Directors

The Nominating, Corporate Governance and Social Responsibility Committee is responsible for identifying and evaluating nominees for director and for recommending to the Board a slate of nominees for election at the Annual Meeting of Shareholders.

In identifying potential candidates for Board membership, the Committee relies on suggestions and recommendations from the Board, shareholders, management and others. The Committee does not distinguish between nominees recommended by shareholders and other nominees. Shareholders wishing to suggest candidates to the Committee for consideration as directors must submit a written notice to the Corporate Secretary, who will provide it to the Committee. The Company's By-Laws set forth the procedures a shareholder must follow to nominate directors. These procedures are summarized in this proxy statement under the caption "2011 Annual Meeting" on page 78.

Director Qualifications

In reviewing nominee candidates, the Committee adheres to the process described above and, in so doing, considers both the Company's Mission to own and develop financially disciplined businesses that are leaders in responsibly providing adult tobacco and wine consumers with superior branded products and its four related Mission goals—investing in leadership; aligning with society; satisfying adult consumers; and creating substantial value for shareholders. The Committee has not established any specific minimum qualification standards for nominees to the Board; rather, in evaluating the suitability of individuals for Board membership the Committee considers the ways in which it believes each nominee can assist the Company in pursuing its Mission and advancing one or more Mission goals. The Committee also takes into account many factors, including whether the individual meets requirements for independence and whether the individual will enhance the diversity of perspectives available to the Board in its deliberations. The Company is committed to diversity, as reflected in its Code of Conduct for Compliance and Integrity and various Company policies. The Committee has a long-standing commitment to diversity, rather than a formal diversity policy, and is guided by the Company's diversity philosophy in its review and consideration of potential director nominees. In this regard, the Board and the Committee view diversity holistically. More particularly, as set forth in the Company's Corporate Governance Guidelines, the Board considers the individual's general understanding of the various disciplines relevant to the success of a large publicly-traded company in today's global business environment; the individual's understanding of the Company's businesses and markets; the individual's professional expertise and experiences; the individual's educational and professional background; and other characteristics of the individual that promote diversity of views and experience. The Committee evaluates each individual in the context of the Board as a whole, with the objective of recommending a group of directors that can best perpetuate the Company's success and represent shareholder interests through the exercise of sound judgment and the application of its diversity of experience. In determining whether to recommend a director for re-election, the Committee also considers the director's past attendance at meetings and participation in and contributions to the activities of the Board. In addition, the Committee considers whether the Board has specific needs for certain skills or attributes at a given time (for example, financial experience and global business experience). Other criteria for Board membership are set forth in the Company's Corporate Governance Guidelines.

The Nominees

It is proposed that ten directors, eight of whom are independent directors, be elected to hold office until the next Annual Meeting of Shareholders and until their successors have been elected. The

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Nominating, Corporate Governance and Social Responsibility Committee has recommended to the Board, and the Board has approved, the persons named and, unless otherwise marked, a signed and returned proxy will be voted for such persons. Each of the nominees currently serves as a director and was elected by the shareholders at the 2009 Annual Meeting with the exception of John T. Casteen III who was unanimously elected to membership by the Board on February 22, 2010. The particular experiences, qualifications, attributes or skills of each nominee that the Committee believes will advance the Company's Mission and one or more Mission goals are included in the individual biographies below.

Independence of Nominees

The Board has determined that each of the following nominees for director is independent in that such nominee has no material relationship with the Company: Elizabeth E. Bailey, Gerald L. Baliles, John T. Casteen III, Thomas F. Farrell II, Robert E. R. Huntley, Thomas W. Jones, George Muñoz and Nabil Y. Sakkab. To assist it in making these determinations, the Board has adopted categorical standards of director independence that are set forth in Annex A to the Corporate Governance Guidelines, which is available on the Company's website at www.altria.com/governance. Each of the above-named nominees qualifies as independent under these standards. In making its affirmative determination that these directors are independent, the Nominating, Corporate Governance and Social Responsibility Committee considered the fact that during 2008, prior to being appointed to the Board, Philip Morris USA Inc., a wholly-owned subsidiary of the Company, retained Dr. Sakkab to consult on a periodic basis regarding best practices in organizational and business processes in research, development and engineering. The Committee, in making this determination, also considered the facts that (i) Mr. Farrell and immediate family members (as defined in the Policy on Related Person Transactions) of Dr. Bailey, Governor Baliles, Mr. Farrell and Dr. Sakkab are employed by entities with which the Company or its subsidiaries do business in the ordinary course on terms comparable to those provided to unrelated third parties and that neither Mr. Farrell nor any immediate family member of Dr. Bailey, Governor Baliles, Mr. Farrell or Dr. Sakkab is involved in or directly benefits from such business and (ii) the Company makes various charitable contributions, including matching gifts under the Company's matching gift program, to entities with which certain nominees for director (or their immediate family members) are affiliated as directors, trustees or employees. The Committee determined that none of the foregoing transactions created a direct or indirect material benefit to the directors. In addition, the Committee determined that the transactions described below under Related Person Transactions and Code of Conduct did not affect the independence of any nominee for director.

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Although it is not anticipated that any of the persons named below will be unable or unwilling to stand for election, a proxy, in the event of such an occurrence, may be voted for a substitute designated by the Board. However, in lieu of designating a substitute, the Board may amend the Company's By-Laws to reduce the number of directors.

Elizabeth E. Bailey

John C. Hower Professor of Business and Public Policy, The Wharton School of the University of Pennsylvania, Philadelphia, PA

Director since 1989

Age: 71

Dr. Bailey assumed her present position in July 1991, having served from July 1990 to June 1991 as a professor of industrial administration at Carnegie-Mellon University and as a visiting scholar at the Yale School of Organization and Management. From 1983 to 1990, she was Dean of the Graduate School of Industrial Administration of Carnegie-Mellon University. Dr. Bailey serves as a trustee of the National Bureau of Economic Research and as an honorary trustee of The Brookings Institution. She served as a director of CSX Corporation from 1989 to 2008 and is a former trustee of TIAA-CREF. Dr. Bailey is Chair of the Nominating, Corporate Governance and Social Responsibility Committee and a member of the Audit, Compensation, Executive, and Finance Committees.

The Nominating, Corporate Governance and Social Responsibility Committee believes that Dr. Bailey's expertise in the areas of management, business administration and public policy, her professional experiences, including key leadership and administrative positions at top ranking universities, and her longstanding experience with the Company provide clear support for her nomination for election to the Board.

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Gerald L. Baliles	Governor Baliles is the Director of the University of Virginia's Miller Center of Public Affairs, a leading public policy institution. He has held this position since April 2006. From 1990 to April 2006, he served as an international aviation and trade partner in the firm of Hunton & Williams LLP, headquartered in Richmond, Virginia. From 1986 through 1990, Governor Baliles served as the 65 th Governor of the Commonwealth of Virginia. During his tenure as Governor, he served as Chairman of the National Governors Association. Governor Baliles serves on the board of Norfolk Southern Corporation and previously served on the boards of Newport News Shipbuilding, PBS, Shenandoah Life Insurance Company*, the Nature Conservancy in Virginia, and the Virginia Historical Society. Governor Baliles is a member of the Compensation, Innovation, and Nominating, Corporate Governance and Social Responsibility Committees.
Director, Miller Center of Public Affairs at the University of Virginia,	
Charlottesville, Virginia	
Director since 2008	
Age: 69	The Nominating, Corporate Governance and Social Responsibility Committee believes that Governor Baliles's significant expertise in public policy and law and his professional, administrative and leadership experiences, including his service as chief executive of the Commonwealth of Virginia, provide clear support for his nomination for election to the Board.

* During 2009, Shenandoah Life Insurance Company entered into a receivership pursuant to a Virginia statutory procedure due to a sharp decline in value in certain of the company's holdings that resulted in the company falling below minimum capitalization requirements. As part of this receivership, the Circuit Court in Richmond, Virginia, entered an order which, in accordance with required statutory provisions that apply to all such receiverships in Virginia, enjoins the directors from conducting any further business related to Shenandoah Life Insurance Company. The order contains no other findings or provisions related to the conduct of any directors of the entity. The Nominating, Corporate Governance and Social Responsibility Committee considered this order with regard to Governor Baliles's qualification to serve as a director and has determined that the order does not impact his ability or qualification to serve as a director.

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John T. Casteen III	Since 1990, Mr. Casteen has served as President of the University of Virginia. He has announced his intention to retire from this position in August 2010 and become President Emeritus at that time. Previously, Mr. Casteen served as Secretary of Education for the Commonwealth of Virginia (1982 – 1985) and president of the University of Connecticut (1985 – 1990). He is currently a director of the Chesapeake Bay Foundation, Sage Publications, Inc., Jefferson Science Associates, LLC and the Virginia University Research Partnership, Inc., all either charitable or privately-held business entities. Mr. Casteen also served on the Board of Directors of Wachovia Corporation from 1997 to 2008.
President, University of Virginia, Charlottesville, Virginia	
Director since 2010	
Age: 66	The Nominating, Corporate Governance and Social Responsibility Committee believes that Mr. Casteen's extensive professional, business, administrative and leadership experiences, particularly his role as chief executive of a university system with top-ranking academic and medical divisions, provide clear support for his nomination for election to the Board.
Dinyar S. Devitre	Mr. Devitre is Special Advisor to General Atlantic Partners, a private equity firm. In March 2008, Mr. Devitre retired from his position as Senior Vice President and Chief Financial Officer of Altria Group, Inc. Prior to Mr. Devitre's appointment to this position in April 2002, he held a number of senior management positions with the Company. He is a director of Emdeon Inc., Western Union Company, and SABMiller plc. He was formerly a director of Kraft Foods Inc. from 2002 to 2007. He also serves on the following charitable boards: The Lincoln Center for the Performing Arts, Inc., Asia Society and the Brooklyn Academy of Music. Mr. Devitre is a member of the Finance and Innovation Committees.
Special Advisor, General Atlantic Partners,	
Greenwich, CT	
Director since 2008	
Age: 62	The Nominating, Corporate Governance and Social Responsibility Committee believes that Mr. Devitre's significant knowledge and understanding of the Company and its businesses, together with his financial acumen, his public company chief financial officer experience and his general business knowledge, provide clear support for his nomination for election to the Board.

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Thomas F. Farrell II Chairman, President and Chief Executive Officer, Dominion Resources, Inc., Richmond, VA Director since 2008	Mr. Farrell is the Chairman, President and Chief Executive Officer of Dominion Resources, Inc., one of the nation's largest producers of energy. He became President and Chief Executive Officer of Dominion Resources, Inc. effective January 1, 2006 and was elected Chairman in April 2007. From January 1, 2004 through December 31, 2006, he served as President and Chief Operating Officer of Dominion Resources, Inc. and prior to that as Executive Vice President. He is Chairman of the Board and Chief Executive Officer of Virginia Electric and Power Company and Chairman, President and Chief Executive Officer of CNG, both wholly-owned subsidiaries of Dominion Resources, Inc. He is also a director of the Institute of Nuclear Power Operations (INPO). Mr. Farrell is Chair of the Compensation Committee and a member of the Audit and Nominating, Corporate Governance and Social Responsibility Committees.
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Age: 55

Basic Diluted Cash dividends declared per common share Weighted-average shares outstanding: Basic Diluted	\$0.07 \$0.07 \$0.08 1,748 1,761	\$0.36 \$0.36 \$— 1,759 1,774
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The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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DELL INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions; unaudited)

	Three Months Ended	
	May 3, 2013	May 4, 2012
Net income	\$ 130	\$ 635
Other comprehensive income, net of tax		
Foreign currency translation adjustments	(31	) (8
Available-for-sale investments		
Change in unrealized gains (losses)	1	—
Reclassification adjustment for net (gains) losses included in net income	—	(2
Net change	1	(2
Cash Flow Hedges		
Change in unrealized gains (losses)	46	(25
Reclassification adjustment for net (gains) losses included in net income	(34	) 14
Net change	12	(11
Total other comprehensive income (loss), net of tax benefit (expense) of \$0 and \$(9), respectively	(18	) (21
Comprehensive income, net of tax	\$ 112	\$ 614
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)

	Three Months Ended	
	May 3, 2013	May 4, 2012
Cash flows from operating activities:		
Net income	\$ 130	\$ 635
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	323	248
Stock-based compensation expense	83	95
Effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies	19	(10)
Deferred income taxes	(28)	47
Provision for doubtful accounts — including financing receivables	48	63
Other	12	(5)
Changes in assets and liabilities, net of effects from acquisitions:		
Accounts receivable	71	161
Financing receivables	129	71
Inventories	(8)	(68)
Other assets	12	48
Accounts payable	(578)	(671)
Deferred revenue	(61)	1
Accrued and other liabilities	(191)	(753)
Change in cash from operating activities	(39)	(138)
Cash flows from investing activities:		
Investments:		
Purchases	(329)	(673)
Maturities and sales	317	640
Capital expenditures	(158)	(142)
Proceeds from the sale of facilities, land, and other assets	4	—
Collections on purchased financing receivables	29	55
Acquisitions of businesses, net of cash received	—	(245)
Change in cash from investing activities	(137)	(365)
Cash flows from financing activities:		
Repurchases of common stock	—	(324)
Cash dividends paid	(142)	—
Issuance of common stock under employee plans	24	38
Issuance (repayment) of commercial paper (maturity 90 days or less), net	—	13
Proceeds from debt	547	596
Repayments of debt	(2,384)	(863)
Other	(2)	8
Change in cash from financing activities	(1,957)	(532)
Effect of exchange rate changes on cash and cash equivalents	(17)	(3)
Change in cash and cash equivalents	(2,150)	(1,038)
Cash and cash equivalents at beginning of the period	12,569	13,852
Cash and cash equivalents at end of the period	\$ 10,419	\$ 12,814

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 — PROPOSED MERGER AND BASIS OF PRESENTATION

Proposed Merger

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

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

Dell's stockholders will be asked to vote on the adoption of the merger agreement and approval of the merger at a special stockholders meeting that will be held on July 18, 2013. The closing of the merger is subject to a non-waivable condition that the merger agreement be adopted by the affirmative vote of the holders of (1) at least a majority of all outstanding shares of common stock and (2) at least a majority of all outstanding shares of common stock held by stockholders other than Parent and its subsidiaries, the MD Investors, any other officers and directors of Dell or any other person having any equity interest in, or any right to acquire any equity interest in, Parent's merger subsidiary or any person of which the merger subsidiary is a direct or indirect subsidiary. Consummation of the merger is also subject to certain customary conditions. The merger agreement does not contain a financing condition. Dell's definitive proxy statement for the special stockholders meeting was first sent to the stockholders on May 31, 2013.

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

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

Pursuant to the terms of a “go-shop” provision in the merger agreement, during the period which began on the date of the merger agreement and expired after March 22, 2013, Dell and its subsidiaries and their respective representatives had the right to initiate, solicit and encourage any alternative acquisition proposals from third parties, provide nonpublic information to such third parties and participate in discussions and negotiations with such third parties regarding alternative acquisition proposals. The 45-day go-shop period elicited two alternative acquisition proposals. One proposal was submitted by a group led by entities affiliated with Blackstone Management Partners and the other by entities affiliated with Carl Icahn. On April 19, 2013, Blackstone Management Partners withdrew from the process and decided not to submit a definitive acquisition proposal. Under the terms and conditions set forth in the merger agreement, before the company stockholder approvals adopting the merger agreement, the Board of Directors may change its recommendation, including in order to approve, and may authorize Dell to enter into, an alternative acquisition proposal if the Special Committee of the Board of Directors that recommended

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DELL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

approval of the merger has determined in good faith, after consultation with outside counsel and its financial advisors, that such alternative acquisition proposal would be more favorable to Dell's stockholders, taking into account all of the terms and conditions of such proposal (including, among other things, the financing, likelihood and timing of its consummation and any adjustments to the merger agreement).

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

Other than expenses associated with the proposed merger, which include transaction costs as well as special performance-based retention cash awards granted to certain key employees in the first quarter of Fiscal 2014 (the "Merger-Related Costs"), the terms of the merger agreement did not impact Dell's Condensed Consolidated Financial Statements as of and for the three months ended May 3, 2013.

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements of Dell Inc. (individually and together with its consolidated subsidiaries, "Dell") should be read in conjunction with the Consolidated Financial Statements and accompanying Notes filed with the U.S. Securities and Exchange Commission ("SEC") in Dell's Annual Report on Form 10-K for the fiscal year ended February 1, 2013 ("Fiscal 2013"). The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, the accompanying Condensed Consolidated Financial Statements reflect all adjustments of a normal recurring nature considered necessary to fairly state the financial position of Dell and its consolidated subsidiaries at May 3, 2013, the results of its operations and corresponding comprehensive income for the three months ended May 3, 2013, and May 4, 2012, and its cash flows for the three months ended May 3, 2013, and May 4, 2012.

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in Dell's Condensed Consolidated Financial Statements and the accompanying Notes. Actual results could differ materially from those estimates. The results of operations, comprehensive income, and cash flows for the three months ended May 3, 2013, and May 4, 2012, are not necessarily indicative of the results to be expected for the full fiscal year or for any other fiscal period.

During the first quarter of Fiscal 2014, Dell completed the reorganization of its reportable segments from the customer-centric segments it maintained through Fiscal 2013 to reportable segments based on the following four product and services business units:

End-User Computing ("EUC")

Enterprise Solutions Group ("ESG")

Dell Software Group

Dell Services

Dell has recast prior period amounts to provide visibility and comparability. The change in Dell's segments did not impact Dell's previously reported consolidated net revenue, gross margin, operating income, net income, or earnings per share.

See Note 14 of the Notes to the Condensed Consolidated Financial Statements for more information on Dell's reportable segments.

During the first quarter of Fiscal 2014, Dell retired 475 million shares that were issued to a wholly-owned subsidiary during Fiscal 2007. While legally issued, these shares were not considered outstanding as of February 1, 2013.

Dell's fiscal year is the 52 or 53 week period ending on the Friday nearest January 31. The fiscal year ending January 31, 2014 ("Fiscal 2014"), will be a 52 week period.

Recently Issued Accounting Pronouncements

Disclosures about Offsetting Assets and Liabilities — In January 2013, the Financial Accounting Standards Board (the "FASB") issued amended guidance that enhanced disclosure requirements about the nature of an entity's right to offset and related arrangements associated with its derivative instruments, repurchase agreements, and securities lending transactions. This new guidance requires the disclosure of the gross amounts subject to rights of offset, amounts offset in accordance with the accounting standards followed, and the related net exposure. This new guidance became effective for Dell during the first quarter of Fiscal 2014. Other than requiring additional disclosures, this new guidance did not impact Dell's Condensed

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DELL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Consolidated Financial Statements. See Note 6 of the Notes to the Condensed Consolidated Financial Statements for more information on disclosures about offsetting assets and liabilities.

Comprehensive Income — In February 2013, the FASB issued new guidance on reporting reclassifications out of accumulated other comprehensive income. This new guidance became effective for Dell during the first quarter of Fiscal 2014. Other than requiring additional disclosures, this new guidance did not impact Dell's Condensed Consolidated Financial Statements. See Note 10 of the Notes to the Condensed Consolidated Financial Statements for more information on Dell's reclassifications out of accumulated other comprehensive loss.

NOTE 2 — FAIR VALUE MEASUREMENTS

The following table presents Dell's hierarchy for its assets and liabilities measured at fair value on a recurring basis as of May 3, 2013, and February 1, 2013:

	May 3, 2013				February 1, 2013			
	Level 1 ^(a)	Level 2 ^(a)	Level 3	Total	Level 1 ^(a)	Level 2 ^(a)	Level 3	Total
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	(in millions)							
Assets:								
Cash equivalents:								
Money market funds	\$6,679	\$—	\$—	\$6,679	\$8,869	\$—	\$—	\$8,869
Non- U.S. government and agencies	—	3	—	3	—	—	—	—
Debt securities:								
Non- U.S. government and agencies	—	87	—	87	—	96	—	96
Commercial paper	—	6	—	6	—	6	—	6
U.S. corporate	—	1,651	—	1,651	—	1,701	—	1,701
International corporate	—	760	—	760	—	700	—	700
Equity and other securities	—	121	—	121	1	112	—	113
Derivative instruments	—	99	—	99	—	68	—	68
Total assets	\$6,679	\$2,727	\$—	\$9,406	\$8,870	\$2,683	\$—	\$11,553
Liabilities:								
Derivative instruments	\$—	\$11	\$—	\$11	\$—	\$16	\$—	\$16
Total liabilities	\$—	\$11	\$—	\$11	\$—	\$16	\$—	\$16

^(a) Dell did not transfer any securities between levels during the three months ended May 3, 2013 or during the fiscal year ended February 1, 2013.

The following section describes the valuation methodologies Dell uses to measure financial instruments at fair value:

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

Debt Securities — The majority of Dell's debt securities consists of various fixed income securities such as U.S. corporate, international corporate, and non-U.S. government and agencies. Valuation is based on pricing models whereby all significant inputs, including benchmark yields, reported trades, broker-dealer quotes, issue spreads, benchmark securities, bids, offers, and other market related data, are observable or can be derived from or corroborated by observable market data for substantially the full term of the asset. Inputs are documented in accordance with the fair value measurements hierarchy. Dell reviews security pricing and assesses liquidity on a quarterly basis. See Note 3 of the Notes to the Condensed Consolidated Financial Statements for additional information about investments.

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DELL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Derivative Instruments — Dell's derivative financial instruments consist primarily of foreign currency forward and purchased option contracts and interest rate swaps. The fair value of the portfolio is determined using valuation models based on market observable inputs, including interest rate curves, forward and spot prices for currencies, and implied volatilities. Credit risk is factored into the fair value calculation of Dell's derivative instrument portfolio. For interest rate derivative instruments, credit risk is determined at the contract level with the use of credit default spreads of either Dell, when in a net liability position, or the relevant counterparty, when in a net asset position. For foreign exchange derivative instruments, credit risk is determined in a similar manner, except that the credit default spread is applied based on the net position of each counterparty with the use of the appropriate credit default spreads. See Note 6 of the Notes to the Condensed Consolidated Financial Statements for a description of Dell's derivative financial instrument activities.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis — Certain assets are measured at fair value on a nonrecurring basis and therefore are not included in the recurring fair value table above. These assets consist primarily of investments accounted for under the cost method and non-financial assets such as goodwill and intangible assets. Investments accounted for under the cost method included in equity and other securities were \$164 million and \$157 million as of May 3, 2013, and February 1, 2013, respectively. Goodwill, intangible assets, and investments accounted for under the cost method are measured at fair value initially and subsequently when there is an indicator of impairment and the impairment is recognized. See Note 7 of the Notes to the Condensed Consolidated Financial Statements for additional information about goodwill and intangible assets.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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NOTE 3 — INVESTMENTS

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

	May 3, 2013				February 1, 2013			
	Carrying Value	Cost	Unrealized Gain	Unrealized (Loss)	Carrying Value	Cost	Unrealized Gain	Unrealized (Loss)
	(in millions)							
Investments:								
Non- U.S. government and agencies	\$42	\$42	\$—	\$—	\$13	\$13	\$—	\$—
Commercial paper	6	6	—	—	6	6	—	—
U.S. corporate	283	282	1	—	113	112	1	—
International corporate	155	155	—	—	76	76	—	—
Total short-term investments	486	485	1	—	208	207	1	—
Non- U.S. government and agencies	45	45	—	—	83	83	—	—
U.S. corporate	1,368	1,359	9	—	1,588	1,580	9	(1)
International corporate	605	601	4	—	624	620	4	—
Equity and other securities	285	285	—	—	270	270	—	—
Total long-term investments	2,303	2,290	13	—	2,565	2,553	13	(1)
Total investments	\$2,789	\$2,775	\$14	\$—	\$2,773	\$2,760	\$14	\$(1)

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

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DELL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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NOTE 4 — FINANCIAL SERVICES

Dell Financial Services

Dell offers or arranges various financing options and services for its business and consumer customers in the U.S. and Canada through Dell Financial Services (“DFS”). DFS’s key activities include the origination, collection, and servicing of customer receivables primarily related to the purchase of Dell products and services. DFS results are allocated to Dell’s segments based on the product or services business unit to which the origination relates.

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

Revolving loans — Revolving loans offered under private label credit financing programs provide qualified customers with a revolving credit line for the purchase of products and services offered by Dell. These private label credit financing programs are referred to as Dell Preferred Account (“DPA”) and Dell Business Credit (“DBC”). The DPA product is primarily offered to individual customers, and the DBC product is primarily offered to small and medium-sized commercial customers. Revolving loans in the U.S. bear interest at a variable annual percentage rate that is tied to the prime rate. Based on historical payment patterns, revolving loan transactions are typically repaid within 12 months on average. Revolving loans are included in short-term financing receivables.

Fixed-term sales-type leases and loans — Dell enters into sales-type lease arrangements with customers who desire lease financing. Leases with business customers have fixed terms of generally two to four years. Future maturities of minimum lease payments at May 3, 2013, were as follows: Fiscal 2014 - \$946 million; Fiscal 2015 - \$845 million; Fiscal 2016 - \$410 million; Fiscal 2017 - \$74 million; Fiscal 2018 and beyond - \$11 million. Dell also offers fixed-term loans to qualified small businesses, large commercial accounts, governmental organizations, educational entities, and certain individual consumer customers. These loans are repaid in equal payments including interest and have defined terms of generally three to four years.

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DELL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The following table summarizes the components of Dell's financing receivables segregated by portfolio segment as of May 3, 2013, and February 1, 2013:

	May 3, 2013			February 1, 2013		
	Revolving	Fixed-term	Total	Revolving	Fixed-term	Total
	(in millions)					
Financing Receivables, net:						
Customer receivables, gross	\$1,701	\$2,470	\$4,171	\$1,834	\$2,535	\$4,369
Allowances for losses	(157)	(22)	(179)	(169)	(23)	(192)
Customer receivables, net	1,544	2,448	3,992	1,665	2,512	4,177
Residual interest	—	382	382	—	385	385
Financing receivables, net	\$1,544	\$2,830	\$4,374	\$1,665	\$2,897	\$4,562
Short-term	\$1,544	\$1,447	\$2,991	\$1,665	\$1,548	\$3,213
Long-term	—	1,383	1,383	—	1,349	1,349
Financing receivables, net	\$1,544	\$2,830	\$4,374	\$1,665	\$2,897	\$4,562

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

	Three Months Ended			May 4, 2012		
	May 3, 2013					
	Revolving	Fixed-term	Total	Revolving	Fixed-term	Total
	(in millions)					
Allowance for financing receivable losses:						
Balance at beginning of period	\$169	\$23	\$192	\$179	\$23	\$202
Principal charge-offs	(44)	(3)	(47)	(49)	(2)	(51)
Interest charge-offs	(8)	—	(8)	(9)	—	(9)
Recoveries	13	1	14	12	1	13
Provision charged to income statement	27	1	28	36	1	37
Balance at end of period	\$157	\$22	\$179	\$169	\$23	\$192

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The following table summarizes the aging of Dell's customer financing receivables, gross, including accrued interest, as of May 3, 2013, and February 1, 2013, segregated by class:

	May 3, 2013				February 1, 2013			
	Current	Past Due 1 — 90 Days	Past Due > 90 Days	Total	Current	Past Due 1 — 90 Days	Past Due > 90 Days	Total
	(in millions)							
Revolving — DPA	\$1,247	\$125	\$41	\$1,413	\$1,322	\$163	\$54	\$1,539
Revolving — DBC	257	26	5	288	264	25	6	295
Fixed-term — Consumer and Small Commercial	304	15	1	320	310	16	1	327
Fixed-term — Medium and Large Commercial	1,937	201	12	2,150	2,015	172	21	2,208
Total customer receivables, gross	\$3,745	\$367	\$59	\$4,171	\$3,911	\$376	\$82	\$4,369

DFS Acquisitions

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

Credit Quality

The following tables summarize customer receivables, gross, including accrued interest by credit quality indicator segregated by class, as of May 3, 2013, and February 1, 2013. The categories shown in the tables below segregate customer receivables based on the relative degrees of credit risk. The credit quality categories cannot be compared between the different classes as loss experience in each class varies substantially. The credit quality indicators for DPA revolving accounts are primarily as of each quarter-end date, and all others are generally updated on a periodic basis.

For DPA revolving receivables shown in the table below, Dell makes credit decisions based on proprietary scorecards, which include the customer's credit history, payment history, credit usage, and other credit agency-related elements. The higher quality category includes prime accounts generally of a higher credit quality that are comparable to U.S. customer FICO scores of 720 or above. The mid-category represents the mid-tier accounts that are comparable to U.S. customer FICO scores from 660 to 719. The lower category is generally sub-prime and represents lower credit quality accounts that are comparable to U.S. customer FICO scores below 660.

	May 3, 2013				February 1, 2013			
	Higher	Mid	Lower	Total	Higher	Mid	Lower	Total
	(in millions)							
Revolving — DPA	\$183	\$397	\$833	\$1,413	\$201	\$435	\$903	\$1,539

For the receivables shown in the table below, an internal grading system is utilized that assigns a credit level score based on a number of considerations, including liquidity, operating performance, and industry outlook. The higher category includes receivables that are generally within Dell's top credit quality levels, which typically have the lowest loss experience. The middle category generally falls within the mid-tier credit levels, and the lower category generally falls within Dell's bottom

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credit levels, which experience higher loss rates. The grading criteria and classifications are different between the fixed-term and revolving products as the loss performance varies between these product and customer sets. Therefore, the credit levels are not comparable between the consumer and small commercial fixed-term class and the DBC revolving class.

	May 3, 2013				February 1, 2013			
	Higher	Mid	Lower	Total	Higher	Mid	Lower	Total
	(in millions)							
Revolving — DBC	\$94	\$84	\$110	\$288	\$99	\$88	\$108	\$295
Fixed-term — Consumer and Small Commercial	\$87	\$119	\$114	\$320	\$90	\$117	\$120	\$327

For the receivables in the table below, an internal grading system is also utilized that assigns a credit level score based on liquidity, operating performance, and industry outlook. Dell's internal credit level scoring has been aggregated to their most comparable external commercial rating agency equivalents. Investment grade generally represents the highest credit quality accounts, non-investment grade represents middle quality accounts, and sub-standard represents the lowest quality accounts.

	May 3, 2013				February 1, 2013			
	Investment	Non-Investment	Sub-Standard	Total	Investment	Non-Investment	Sub-Standard	Total
	(in millions)							
Fixed-term — Medium and Large Commercial	\$1,310	\$ 560	\$ 280	\$2,150	\$1,355	\$ 582	\$ 271	\$2,208

Asset Securitizations and Sales

Dell transfers certain U.S. customer financing receivables to Special Purpose Entities ("SPEs") that meet the definition of a Variable Interest Entity ("VIE") and are consolidated into Dell's Condensed Consolidated Financial Statements. These SPEs are bankruptcy remote legal entities with separate assets and liabilities. The purpose of the SPEs is to facilitate the funding of customer receivables in the capital markets. These SPEs have entered into financing arrangements with multi-seller conduits that, in turn, issue asset-backed debt securities in the capital markets. Dell's risk of loss related to securitized receivables is limited to the amount by which Dell's right to receive collections for assets securitized exceeds the amount required to pay interest, principal, and other fees and expenses related to the asset-backed securities. Dell provides credit enhancement to the securitization in the form of over-collateralization. Customer receivables funded via securitization through SPEs were \$534 million and \$536 million during the three months ended May 3, 2013, and May 4, 2012, respectively.

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

	May 3, 2013 (in millions)	February 1, 2013
Financing receivables held by consolidated VIEs, net:		
Short-term, net	\$1,184	\$1,089
Long-term, net	462	386
Financing receivables held by consolidated VIEs, net	\$1,646	\$1,475

Dell's securitization programs are generally effective for 6 to 12 months and are subject to a periodic renewal process. These programs contain standard structural features related to the performance of the securitized receivables. The structural features include defined credit losses, delinquencies, average credit scores, and excess collections above or below specified levels. In the event one or more of these criteria are not met and Dell is unable to restructure the program, no further funding of receivables will be permitted and the timing of Dell's expected cash flows from over-collateralization will be delayed. At May 3, 2013, these criteria were met.

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Dell sells selected fixed-term financing receivables to unrelated third parties on a periodic basis, primarily to manage certain concentrations of customer credit exposure. For the three months ended May 3, 2013, and May 4, 2012, the amount of the receivables sold was \$53 million and \$71 million, respectively.

Structured Financing Debt

The structured financing debt related to the fixed-term lease and loan programs and the revolving loan securitization program was \$1.5 billion and \$1.3 billion as of May 3, 2013, and February 1, 2013, respectively. The debt is collateralized solely by the financing receivables in the programs. The debt has a variable interest rate and an average duration of 12 to 36 months based on the terms of the underlying financing receivables. As of May 3, 2013, the total debt capacity related to the securitization programs was \$1.5 billion. Dell's securitization programs are structured to operate near their debt capacity. See Note 5 of the Notes to the Condensed Consolidated Financial Statements for additional information regarding the structured financing debt.

Dell enters into interest rate swap agreements to effectively convert a portion of the structured financing debt from a floating rate to a fixed rate. The interest rate swaps qualify for hedge accounting treatment as cash flow hedges. See Note 6 of the Notes to the Condensed Consolidated Financial Statements for additional information about interest rate swaps.

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NOTE 5 — BORROWINGS

The following table summarizes Dell's outstanding debt as of the dates indicated:

	May 3, 2013 (in millions)	February 1, 2013
Long-Term Debt		
Senior Notes		
\$600 million issued on April 17, 2008, at 4.70% due April 2013 ("2013A Notes" ^{(a)(b)})	\$—	\$601
\$500 million issued on September 7, 2010, at 1.40% due September 2013	500	500
\$500 million issued on April 1, 2009, at 5.625% due April 2014 ^(b)	500	500
\$300 million issued on March 28, 2011, with a floating rate due April 2014 ("2014B Notes")	300	300
\$400 million issued on March 28, 2011, at 2.10% due April 2014	400	400
\$700 million issued on September 7, 2010, at 2.30% due September 2015 ^(b)	702	702
\$400 million issued on March 28, 2011, at 3.10% due April 2016 ^(b)	403	402
\$500 million issued on April 17, 2008, at 5.65% due April 2018 ^(b)	503	502
\$600 million issued on June 10, 2009, at 5.875% due June 2019 ^(b)	604	604
\$400 million issued on March 28, 2011, at 4.625% due April 2021	398	398
\$400 million issued on April 17, 2008, at 6.50% due April 2038	400	400
\$300 million issued on September 7, 2010, at 5.40% due September 2040	300	300
Senior Debentures		
\$300 million issued on April 3, 1998, at 7.10% due April 2028 ("Senior Debentures") ^(a)	378	379
Other		
Long-term structured financing debt	999	872
Less: current portion of long-term debt	(2,272)	(1,618)
Total long-term debt	4,115	5,242
Short-Term Debt		
Commercial paper	405	1,807
Short-term structured financing debt	454	416
Current portion of long-term debt	2,272	1,618
Other	2	2
Total short-term debt	3,133	3,843
Total debt	\$7,248	\$9,085

^(a) Includes the impact of interest rate swap terminations.^(b) Includes hedge accounting adjustments.

As of May 3, 2013, the total carrying value and estimated fair value of outstanding senior notes and debentures, including the current portion, was \$5.4 billion and \$5.3 billion, respectively. This is compared to a carrying value and estimated fair value of \$6.0 billion and \$5.9 billion, respectively, as of February 1, 2013. The fair value of outstanding senior notes and debentures is determined based on observable market prices in a less active market and is categorized as Level 2 in the fair value hierarchy. The fair values of the structured financing debt, commercial paper, and other short-term debt approximate their carrying values. Interest on the senior notes and debentures is payable semiannually, except for the floating rate 2014B Notes, which accrue interest that is payable quarterly. The carrying value of the Senior Debentures and the 2013A Notes includes an unamortized amount related to the termination of interest rate swap agreements, which were previously designated as hedges of the debt. See Note 6 of the Notes to the Condensed

Consolidated Financial Statements for additional information about interest rate swaps. The weighted average interest rate for the short-term structured financing debt and other as of May 3, 2013, and February 1, 2013, was 1.10% and 1.00%, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Structured Financing Debt — As of May 3, 2013, Dell had \$1.5 billion outstanding in structured financing debt, which was primarily related to the fixed-term lease and loan, and revolving loan securitization programs. Of the \$999 million outstanding in long-term structured financing debt, which is primarily related to the fixed-term lease and loan programs, \$572 million was classified as current as of May 3, 2013. See Note 4 and Note 6 of the Notes to the Condensed Consolidated Financial Statements for further discussion of the structured financing debt and the interest rate swap agreements that hedge a portion of that debt.

Commercial Paper — As of May 3, 2013, and February 1, 2013, there was \$405 million and \$1.8 billion, respectively, outstanding under the commercial paper program. The weighted average interest rate on outstanding commercial paper as of May 3, 2013, and February 1, 2013, was 0.49% and 0.38%, respectively. Dell has \$2.0 billion in senior unsecured revolving credit facilities primarily to support its commercial paper program. These credit facilities will expire on April 15, 2015. There were no outstanding advances under the revolving credit facilities as of May 3, 2013.

The indentures governing the senior notes and debentures and the structured financing debt shown in the above table contain customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, and certain events of bankruptcy and insolvency. The indentures also contain covenants limiting Dell's ability to create certain liens; enter into sale-and-lease back transactions; and consolidate or merge with, or convey, transfer or lease all or substantially all of its assets to, another person. The senior unsecured revolving credit facilities require compliance with conditions that must be satisfied prior to any borrowing, as well as ongoing compliance with specified affirmative and negative covenants, including maintenance of a minimum interest coverage ratio. Dell was in compliance with all financial covenants as of May 3, 2013.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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NOTE 6 — DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Derivative Instruments

As part of its risk management strategy, Dell uses derivative instruments, primarily forward contracts and purchased options, to hedge certain foreign currency exposures and interest rate swaps to manage the exposure of its debt portfolio to interest rate risk. Dell's objective is to offset gains and losses resulting from these exposures with gains and losses on the derivative contracts used to hedge the exposures, thereby reducing volatility of earnings and protecting fair values of assets and liabilities. Dell assesses hedge effectiveness both at the onset of the hedge and at regular intervals throughout the life of the derivative and recognizes any ineffective portion of the hedge, as well as amounts not included in the assessment of effectiveness, in earnings as a component of interest and other, net. Hedge ineffectiveness and amounts not included in the assessment of effectiveness were not material for fair value or cash flow hedges for the three months ended May 3, 2013, and May 4, 2012.

Foreign Exchange Risk

Dell uses forward contracts and purchased options designated as cash flow hedges to protect against the foreign currency exchange rate risks inherent in its forecasted transactions denominated in currencies other than the U.S. dollar. The risk of loss associated with purchased options is limited to premium amounts paid for the option contracts. The risk of loss associated with forward contracts is equal to the exchange rate differential from the time the contract is entered into until the time it is settled. The majority of these contracts typically expire in 12 months or less. During the three months ended May 3, 2013, and May 4, 2012, Dell did not discontinue any cash flow hedges related to foreign exchange contracts that had a material impact on Dell's results of operations, as substantially all forecasted foreign currency transactions were realized in Dell's actual results.

In addition, Dell uses forward contracts and purchased options to hedge monetary assets and liabilities denominated in a foreign currency. These contracts generally expire in 3 months or less, are considered economic hedges and are not designated. The change in the fair value of these instruments represents a natural hedge as their gains and losses offset the changes in the underlying fair value of the monetary assets and liabilities due to movements in currency exchange rates. Dell recognized a loss of \$28 million and a gain of \$12 million for the change in fair value of these instruments during the three months ended May 3, 2013, and May 4, 2012, respectively.

Interest Rate Risk

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

In addition, Dell may use forward-starting interest rate swaps and interest rate lock agreements to lock in fixed interest rates on its forecasted issuances of debt. The objective of these hedges is to offset the variability of future payments associated with the interest rate on debt instruments. As of May 3, 2013, Dell had \$350 million in aggregate notional amounts of forward-starting interest rate swaps outstanding. These swaps were de-designated during the three months ended May 3, 2013. Dell did not have any forward-starting interest rate swaps at May 4, 2012.

Periodically, Dell also uses interest rate swaps designated as fair value hedges to modify the market risk exposures in connection with long-term debt to achieve primarily LIBOR-based floating interest expense. As of May 3, 2013, and May 4, 2012, Dell had outstanding interest rate swaps that economically hedge a portion of its interest rate exposure

on certain tranches of long-term debt.

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DELL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Notional Amounts of Outstanding Derivative Instruments

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

	May 3, 2013	February 1, 2013
	(in millions)	
Foreign Exchange Contracts		
Designated as cash flow hedging instruments	\$2,975	\$2,847
Non-designated as hedging instruments	1,008	512
Total	\$3,983	\$3,359
Interest Rate Contracts		
Designated as fair value hedging instruments	\$700	\$800
Designated as cash flow hedging instruments	849	1,320
Non-designated as hedging instruments	500	127
Total	\$2,049	\$2,247

Derivative Instruments Additional Information

Dell has reviewed the existence and nature of credit-risk-related contingent features in derivative trading agreements with its counterparties. Certain agreements contain clauses under which, if Dell's credit ratings were to fall below investment grade upon a change of control of Dell, counterparties would have the right to terminate those derivative contracts where Dell is in a net liability position. As of May 3, 2013, there had been no such triggering event.

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DELL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

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

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in Accumulated OCI, Net of Tax, on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)
(in millions)					
For the three months ended May 3, 2013					
		Total net revenue	\$28		
Foreign exchange contracts	\$46	Total cost of net revenue	3		
Interest rate contracts	—	Interest and other, net	1	Interest and other, net	\$2
Total	\$46		\$32		\$2
For the three months ended May 4, 2012					
		Total net revenue	\$(3	)	
Foreign exchange contracts	\$(25	Total cost of net revenue	(11	)	
Interest rate contracts	—	Interest and other, net	—	Interest and other, net	\$—
Total	\$(25		\$(14	)	\$—

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DELL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Fair Value of Derivative Instruments and Amounts Offset in the Condensed Consolidated Statements of Financial Position

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

May 3, 2013

	Other Current Assets	Other Non- Current Assets (in millions)	Other Current Liabilities	Other Non-Current Liabilities	Total Fair Value	
Derivatives Designated as Hedging Instruments						
Foreign exchange contracts in an asset position	\$89	\$—	\$4	\$ —	\$93	
Foreign exchange contracts in a liability position	(48	) —	(3	) —	(51	)
Interest rate contracts in an asset position	—	15	—	—	15	
Interest rate contracts in a liability position	—	—	—	(1	) (1	)
Net asset (liability)	41	15	1	(1	) 56	
Derivatives not Designated as Hedging Instruments						
Foreign exchange contracts in an asset position	126	—	6	—	132	
Foreign exchange contracts in a liability position	(83	) —	(10	) —	(93	)
Interest rate contracts in a liability position	—	—	—	(7	) (7	)
Net asset (liability)	43	—	(4	) (7	) 32	
Total derivatives at fair value	\$84	\$15	\$(3	) \$ (8	) \$88	

February 1, 2013

	Other Current Assets	Other Non- Current Assets (in millions)	Other Current Liabilities	Other Non-Current Liabilities	Total Fair Value	
Derivatives Designated as Hedging Instruments						
Foreign exchange contracts in an asset position	\$86	\$—	\$9	\$ —	\$95	
Foreign exchange contracts in a liability position	(40	) —	(3	) —	(43	)
Interest rate contracts in an asset position	—	12	—	—	12	
Interest rate contracts in a liability position	—	—	—	(6	) (6	)
Net asset (liability)	46	12	6	(6	) 58	
Derivatives not Designated as Hedging Instruments						
Foreign exchange contracts in an asset position	118	—	16	—	134	
Foreign exchange contracts in a liability position	(108	) —	(32	) —	(140	)
Net asset (liability)	10	—	(16	) —	(6	)
Total derivatives at fair value	\$56	\$12	\$(10	) \$ (6	) \$52	

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DELL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The following table presents the gross amounts of Dell's derivative instruments, amounts offset due to master netting agreements with Dell's various counterparties, and the net amounts recognized in the Condensed Consolidated Statements of Financial Position.

Description	May 3, 2013					
	Gross Amounts of Recognized Assets/ (Liabilities)	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets/ (Liabilities) Presented in the Statement of Financial Position	Gross Amounts not Offset in the Statement of Financial Position Financial Instruments	Cash Collateral Received or Pledged	Net Amount
	(in millions)					
Foreign Exchange Contracts						
Financial assets	\$225	\$(141)	\$ 84	\$—	\$—	\$84
Financial liabilities	(144)	141	(3)	—	—	(3)
Total Foreign Exchange Contracts						81
Interest Rate Contracts						
Financial assets	15	—	15	—	—	15
Financial liabilities	(8)	—	(8)	—	—	(8)
Total Interest Rate Contracts						7
Total Derivative Instruments	\$88	\$—	\$ 88	\$—	\$—	\$88

Description	February 1, 2013					
	Gross Amounts of Recognized Assets/ (Liabilities)	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets/ (Liabilities) Presented in the Statement of Financial Position	Gross Amounts not Offset in the Statement of Financial Position Financial Instruments	Cash Collateral Received or Pledged	Net Amount
	(in millions)					
Foreign Exchange Contracts						
Financial assets	\$229	\$(173)	\$ 56	\$—	\$—	\$56
Financial liabilities	(183)	173	(10)	—	—	(10)
Total Foreign Exchange Contracts						46
Interest Rate Contracts						
Financial assets	12	—	12	—	—	12
Financial liabilities	(6)	—	(6)	—	—	(6)
Total Interest Rate Contracts						6
Total Derivative Instruments	\$52	\$—	\$ 52	\$—	\$—	\$52

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

NOTE 7 — GOODWILL AND INTANGIBLE ASSETS

Goodwill

During the first quarter of Fiscal 2014, Dell completed the reorganization of its reportable segments from the customer-centric segments it maintained through Fiscal 2013 to the following four product and services reportable segments: End-User Computing, the Enterprise Solutions Group, the Dell Software Group, and Dell Services. See Note 14 of the Notes to the Consolidated Financial Statements for additional information on Dell's reportable segments.

As a direct result of this segment change, in the first quarter of Fiscal 2014, the Company's goodwill reporting units also changed. As a result of this change, goodwill was re-allocated to the new reporting units on a relative fair value basis as of February 1, 2013. Dell did not incur any impairment charges to goodwill as a result of this change in reporting units.

The following table presents goodwill allocated to Dell's current reportable segments as of May 3, 2013, and February 1, 2013, and changes in the carrying amount of goodwill for the three months ended May 3, 2013:

	End User Computing	Enterprise Solutions Group	Dell Software Group	Dell Services	Total
	(in millions)				
Balance at February 1, 2013	\$1,499	\$2,244	\$890	\$4,671	\$9,304
Goodwill acquired during the period	—	—	—	—	—
Adjustments	(3	) (3	) (1	) (8	) (15
Balance at May 3, 2013	\$1,496	\$2,241	\$889	\$4,663	\$9,289

Goodwill is tested for impairment on an annual basis during the second fiscal quarter, or sooner if an indicator of impairment occurs. No other events have transpired since the second quarter of Fiscal 2013 that would indicate a potential impairment of goodwill as of May 3, 2013. In addition, Dell did not have any accumulated goodwill impairment charges as of May 3, 2013.

Intangible Assets

Dell's intangible assets associated with completed acquisitions at May 3, 2013, and February 1, 2013, were as follows:

	May 3, 2013			February 1, 2013		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	(in millions)					
Customer relationships	\$2,180	\$(790	) \$1,390	\$2,184	\$(721	) \$1,463
Technology	2,502	(932	) 1,570	2,513	(827	) 1,686
Non-compete agreements	75	(57	) 18	75	(54	) 21
Trade names	159	(65	) 94	159	(59	) 100
Amortizable intangible assets	4,916	(1,844	) 3,072	4,931	(1,661	) 3,270
In-process research and development	78	—	78	78	—	78
Indefinite lived intangible assets	26	—	26	26	—	26
Total intangible assets	\$5,020	\$(1,844	) \$3,176	\$5,035	\$(1,661	) \$3,374

Amortization expense related to finite-lived intangible assets was approximately \$196 million and \$110 million during the three months ended May 3, 2013, and May 4, 2012, respectively. There were no material impairment charges related to intangible assets for the three months ended May 3, 2013, and May 4, 2012.

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(unaudited)

Estimated future annual pre-tax amortization expense of finite-lived intangible assets as of May 3, 2013, over the next five fiscal years and thereafter is as follows:

Fiscal Years	(in millions)
2014 (remaining nine months)	\$574
2015	680
2016	612
2017	514
2018	370
Thereafter	322
Total	\$3,072

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DELL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

NOTE 8 — WARRANTY AND DEFERRED EXTENDED WARRANTY REVENUE

Dell records liabilities for its standard limited warranties at the time of sale for the estimated costs that may be incurred. The liability for standard warranties is included in accrued and other current liabilities and other non-current liabilities in the Condensed Consolidated Statements of Financial Position. Revenue from the sale of extended warranties is recognized over the term of the contract or when the service is completed, and the costs associated with these contracts are recognized as incurred. Deferred extended warranty revenue is included in deferred revenue in the Condensed Consolidated Statements of Financial Position. Changes in Dell's liabilities for standard limited warranties and deferred revenue related to extended warranties are presented in the following tables for the periods indicated:

	Three Months Ended	
	May 3, 2013	May 4, 2012
	(in millions)	
Warranty liability:		
Warranty liability at beginning of period	\$762	\$888
Costs accrued for new warranty contracts and changes in estimates for pre-existing warranties ^{(a)(b)}	242	283
Service obligations honored	(244)	(309)
Warranty liability at end of period	\$760	\$862
Current portion	\$490	\$558
Non-current portion	270	304
Warranty liability at end of period	\$760	\$862
	Three Months Ended	
	May 3, 2013 ^(c)	May 4, 2012
	(in millions)	
Deferred extended warranty revenue:		
Deferred extended warranty revenue at beginning of period	\$7,048	\$7,002
Revenue deferred for new extended warranties ^(b)	959	1,006
Revenue recognized	(1,025)	(964)
Deferred extended warranty revenue at end of period	\$6,982	\$7,044
Current portion	\$3,337	\$3,308
Non-current portion	3,645	3,736
Deferred extended warranty revenue at end of period	\$6,982	\$7,044

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

^(b) Includes the impact of foreign currency exchange rate fluctuations.

^(c) Prior period amounts have been reclassified to conform to the current period presentation.

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DELL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

NOTE 9 — SUPPLEMENTAL FINANCIAL INFORMATION

The following table provides information on amounts included in inventories, net and deferred revenue, as of May 3, 2013, and February 1, 2013:

	May 3, 2013 (in millions)	February 1, 2013
Inventories, net:		
Production materials	\$614	\$593
Work-in-process	311	283
Finished goods	462	506
Total	\$1,387	\$1,382
	May 3, 2013 (in millions)	February 1, 2013 ^(a)
Deferred revenue:		
Deferred extended warranty revenue	\$6,982	\$7,048
Other deferred services revenue	420	497
Total deferred services revenue	7,402	7,545
Deferred revenue - Dell software	650	607
Other deferred revenue	176	192
Total deferred revenue	\$8,228	\$8,344
Short-term portion	\$4,265	\$4,373
Long-term portion	3,963	3,971
Total deferred revenue	\$8,228	\$8,344

^(a) Prior period amounts have been revised to conform to the current period presentation.

NOTE 10 — ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss is presented in the Condensed Consolidated Statements of Financial Position and is comprised of amounts related to foreign currency translation adjustments, changes in the fair value of Dell's available for sale investments, and amounts related to Dell's cash flow hedges. The following table presents changes in accumulated other comprehensive loss, net of tax, by the following components:

	Foreign Currency Translation Adjustments (in millions)	Available-for-Sale Investments	Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balances at February 1, 2013	\$(68)	) \$ 8	\$1	\$(59)
Other comprehensive income (loss) before reclassifications	(31)	) 1	46	16
Amounts reclassified from accumulated other comprehensive loss	—	—	(34)	) (34)

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Total change for the period	(31	) 1	12	(18	)
Balances at May 3, 2013	\$(99	) \$ 9	\$13	\$(77	)

Amounts related to available-for-sale investments are reclassified to net income when gains and losses are realized. See Notes 2 and 3 to the Condensed Consolidated Financial Statements for more information on Dell's investments. Amounts related to

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DELL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

Dell's cash flow hedges are reclassified to net income during the same period in which the items being hedged are recognized in earnings. In addition, any hedge ineffectiveness related to cash flow hedges is recognized currently in net income. See Note 6 to the Condensed Consolidated Financial Statements for more information on Dell's derivative instruments. The following table presents reclassifications out of accumulated other comprehensive loss, net of tax, which consists entirely of gains related to cash flow hedges, to net income for the three months ended May 3, 2013:

	Total Reclassifications, net of tax (in millions)
Net revenue	\$28
Cost of net revenue	3
Interest and other, net	3
Total	\$34

NOTE 11 — COMMITMENTS AND CONTINGENCIES

Legal Matters — Dell is involved in various claims, suits, assessments, investigations, and legal proceedings that arise from time to time in the ordinary course of its business, including those identified below, consisting of matters involving consumer, antitrust, tax, intellectual property, and other issues on a global basis. 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. Dell reviews these accruals at least quarterly and adjusts them to reflect ongoing negotiations, settlements, rulings, advice of legal counsel, and other relevant information. To the extent new information is obtained and Dell's views on the probable outcomes of claims, suits, assessments, investigations, or legal proceedings change, changes in Dell's accrued liabilities would be recorded in the period in which such determination is made. For some matters, the amount of liability is not probable or the amount cannot be reasonably estimated and therefore accruals have not been made. The following is a discussion of Dell's significant legal matters and other proceedings:

Copyright Levies - Dell's obligation to collect and remit copyright levies in certain European Union ("EU") countries may be affected by the resolution of legal proceedings pending in Germany against various companies, including Dell's German subsidiary, and elsewhere in the EU against other companies in Dell's industry. The plaintiffs in those proceedings, some of which are described below, generally seek to impose or modify the levies with respect to sales of such equipment as multifunction devices, phones, personal computers, and printers, alleging that such products enable the copying of copyrighted materials. Some of the proceedings also challenge whether the levy schemes in those countries comply with EU law. Certain EU member countries that do not yet impose levies on digital devices are expected to implement legislation to enable them to extend existing levy schemes, while some other EU member countries are expected to limit the scope of levy schemes and their applicability in the digital hardware environment. Dell, other companies, and various industry associations have opposed the extension of levies to the digital environment and have advocated alternative models of compensation to rights holders. Dell continues to collect levies in certain EU countries where it has determined that based on local laws it is probable that Dell has a payment obligation. The amount of levies is generally based on the number of products sold and the per-product amounts of the levies, which vary. In all other matters, Dell does not believe there is a probable and estimable claim. Accordingly, Dell has not accrued any liability nor collected any levies.

On December 29, 2005, Zentralstelle Für private Überspielungrechte (“ZPÜ”), a joint association of various German collecting societies, instituted arbitration proceedings against Dell's German subsidiary before the Board of Arbitration at the German Patent and Trademark Office in Munich, and subsequently filed a lawsuit in the German Regional Court in Munich on February 21, 2008, seeking levies to be paid on each personal computer sold by Dell in Germany through the end of calendar year 2007. On December 23, 2009, ZPÜ and the German industry association, BCH, reached a settlement regarding audio-video copyright levy litigation (with levies ranging from €3.15 to €13.65 per unit). Dell joined this settlement on February 23, 2010, and has paid the amounts due under the settlement. However, because the settlement agreement expired on December 31, 2010, the amount of levies payable after calendar year 2010, as well as Dell's ability to recover such amounts through increased prices, remains uncertain. German courts are

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DELL INC.

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(unaudited)

also considering a lawsuit originally filed in July 2004 by VG Wort, a German collecting society representing certain copyright holders, against Hewlett-Packard Company in the Stuttgart Civil Court seeking levies on printers, and a lawsuit originally filed in September 2003 by the same plaintiff against Fujitsu Siemens Computer GmbH in Munich Civil Court in Munich, Germany seeking levies on personal computers. In each case, the civil and appellate courts held that the subject classes of equipment were subject to levies. In July 2011, the German Federal Supreme Court, to which the lower court holdings have been appealed, referred each case to the Court of Justice of the European Union, submitting a number of legal questions on the interpretation of the European Copyright Directive which the German Federal Supreme Court deems necessary for its decision. Dell has not accrued any liability in either matter, as Dell does not believe there is a probable and estimable claim.

Proceedings seeking to impose or modify copyright levies for sales of digital devices also have been instituted in courts in Spain and in other EU member states. Even in countries where Dell is not a party to such proceedings, decisions in those cases could impact Dell's business and the amount of copyright levies Dell may be required to collect.

The ultimate resolution of these proceedings and the associated financial impact to Dell, if any, including the number of units potentially affected, the amount of levies imposed, and the ability of Dell to recover such amounts, remain uncertain at this time. Should the courts determine there is liability for previous units shipped beyond the amount of levies Dell has collected or accrued, Dell would be liable for such incremental amounts. Recovery of any such amounts from others by Dell would be possible only on future collections related to future shipments.

Convolve Inc. v Dell Inc. - Convolve, Inc. sued Dell, Western Digital Corporation ("Western Digital"), Hitachi Global Storage Technologies, Inc., and Hitachi Ltd. (collectively "Hitachi") on June 18, 2008 in the U.S. District Court for the Eastern District of Texas, Marshall Division, alleging that the defendants infringed United States Patent No. 4,916,635 (entitled "Shaping Command Inputs to Minimize Unwanted Dynamics") and United States Patent No. 6,314,473 (entitled "System for Removing Selected Unwanted Frequencies in Accordance with Altered Settings in a User Interface of a Data Storage Device"). Western Digital and Hitachi are hard drive suppliers of Dell. The plaintiff sought damages for each product with an allegedly infringing hard drive sold by Dell, plus exemplary damages for allegedly willful infringement. On July 26, 2011, a jury found that the patents had been infringed and awarded the plaintiff an amount of damages that is not material to Dell. The jury decision is subject to final approval and entry by the judge.

Other Litigation - The various legal proceedings in which Dell is involved include commercial litigation and a variety of patent suits. In some of these cases, Dell is the sole defendant. More often, particularly in the patent suits, Dell is one of a number of defendants in the electronics and technology industries. Dell is actively defending a number of patent infringement suits, and several pending claims are in various stages of evaluation. While the number of patent cases has grown over time, Dell does not currently anticipate that any of these matters will have a material adverse effect on Dell's business, financial condition, results of operations, or cash flows.

As of May 3, 2013, Dell does not believe there is a reasonable possibility that a material loss exceeding the amounts already accrued for these or other proceedings or matters has been incurred. However, since the ultimate resolution of any such proceedings and matters is inherently unpredictable, Dell's business, financial condition, results of operations, or cash flows could be materially affected in any particular period by unfavorable outcomes in one or more of these proceedings or matters. Whether the outcome of any claim, suit, assessment, investigation, or legal proceeding, individually or collectively, could have a material adverse effect on Dell's business, financial condition, results of operations, or cash flows will depend on a number of variables, including the nature, timing, and amount of any associated expenses, amounts paid in settlement, damages, or other remedies or consequences.

Indemnifications — In the ordinary course of business, Dell enters into contractual arrangements under which Dell may agree to indemnify the third party to such arrangements from any losses incurred relating to the services it performs on behalf of Dell or for losses arising from certain events as defined in the particular contract, such as litigation or claims relating to past performance. Such indemnification obligations may not be subject to maximum loss clauses. Historically, payments related to these indemnifications have been immaterial.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

NOTE 12 — INCOME AND OTHER TAXES

Dell's effective income tax rate was 17.6% and 19.8% for the three months ended May 3, 2013, and May 4, 2012, respectively. The decrease in Dell's effective income tax rate for the three months ended May 3, 2013, was primarily attributable to the increase in permanent differences as a relative percentage of pre-tax income. In addition, pre-tax income for the three months ended May 3, 2013 includes the Merger-Related Costs, which were primarily incurred in higher tax jurisdictions.

The differences between the estimated effective income tax rates and the U.S. federal statutory rate of 35% principally result from Dell's geographical distribution of taxable income and differences between the book and tax treatment of certain items. In certain jurisdictions, Dell's tax rate is significantly less than the applicable statutory rate as a result of tax holidays. Dell's significant tax holidays expire in whole or in part during fiscal years 2016 through 2022. Many of these tax holidays and reduced tax rates may be extended when certain conditions are met or may be terminated early if certain conditions are not met. The income tax rate for future quarters of Fiscal 2014 will be impacted by the actual mix of jurisdictions in which income is generated.

Dell is currently under income tax audits 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 years 1999 through 2011. As a result of these audits, Dell maintains ongoing discussions and negotiations relating to tax matters with the taxing authorities in these jurisdictions. Dell believes that it has provided adequate reserves related to all matters contained in tax periods open to examination.

Dell's U.S. federal income tax returns for fiscal years 2007 through 2009 are currently under examination by the Internal Revenue Service ("IRS"). The IRS recently issued a revised Revenue Agent's Report for fiscal years 2004 through 2006 proposing certain assessments primarily related to transfer pricing matters. Dell disagrees with certain of the proposed assessments and has contested them through the IRS administrative appeals procedures. Should Dell experience an unfavorable outcome in the IRS matter, such an outcome could have a material impact on its results of operations, financial position, and cash flows.

Judgment is required in evaluating Dell's uncertain tax positions and determining Dell's provision for income taxes. Dell's net unrecognized tax benefits, included in other non-current liabilities in the Condensed Consolidated Statements of Financial Position, were \$2.9 billion as of both May 3, 2013, and February 1, 2013. If recognized, these tax benefits would favorably impact Dell's effective tax rate. Although the timing of income tax audit resolutions and negotiations with taxing authorities is highly uncertain, Dell does not anticipate a significant change to the total amount of unrecognized income tax benefits within the next 12 months.

Dell takes certain non-income tax positions in the jurisdictions in which it operates and has received certain non-income tax assessments from various jurisdictions. Dell believes that a material loss in these matters is not probable and it is not reasonably possible that a material loss exceeding amounts already accrued has been incurred. Dell believes its positions in these non-income tax litigation matters are supportable and that it will ultimately prevail. In the normal course of business, Dell's positions and conclusions related to its non-income taxes could be challenged and assessments may be made. To the extent new information is obtained and Dell's views on its positions, probable outcomes of assessments, or litigation change, changes in estimates to Dell's accrued liabilities would be recorded in the period in which such a determination is made.

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DELL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

NOTE 13 — EARNINGS PER 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 anti-dilutive. Accordingly, certain stock-based incentive awards have been excluded from the calculation of diluted earnings per share, totaling 83 million and 106 million common shares for the three months ended May 3, 2013, and May 4, 2012, respectively. The following table sets forth the computation of basic and diluted earnings per share for the three months ended May 3, 2013, and May 4, 2012:

	Three Months Ended	
	May 3, 2013	May 4, 2012
	(in millions, except per share amounts)	
Numerator:		
Net income	\$ 130	\$ 635
Denominator:		
Weighted-average shares outstanding:		
Basic	1,748	1,759
Effect of dilutive options, restricted stock units, restricted stock, and other	13	15
Diluted	1,761	1,774
Earnings per share:		
Basic	\$0.07	\$0.36
Diluted	\$0.07	\$0.36

NOTE 14 — SEGMENT INFORMATION

During the first quarter of Fiscal 2014, Dell completed the reorganization of its reportable segments from the customer-centric segments it maintained through Fiscal 2013 to reportable segments based on the following product and services business units:

•End-User Computing ("EUC")

•Enterprise Solutions Group ("ESG")

•Dell Software Group

•Dell Services

EUC includes notebooks, desktop PCs, thin client products, tablets, third-party software, and EUC-related peripherals. ESG includes servers, networking, storage, and ESG-related peripherals. The Dell Software Group includes systems management, security, and information management software offerings, and Dell Services includes a broad range of IT and business services, including support and deployment services, infrastructure, cloud, and security services, and applications and business process services.

Dell has recast prior period amounts to provide visibility and comparability. The change in Dell's segments did not impact Dell's previously reported consolidated net revenue, gross margin, operating income, net income, or earnings per share.

The reportable segments disclosed herein are based on information reviewed by Dell's management to evaluate the segment results. Dell's measure of segment operating income for management reporting purposes excludes

amortization of intangible assets, severance and facility action costs and acquisition-related charges, unallocated corporate expenses, and the Merger-Related Costs. See Note 1 of the Notes to the Condensed Consolidated Financial Statements for more information on the proposed merger. Dell does not allocate assets to the above reportable segments for internal reporting purposes.

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DELL INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(unaudited)

The following tables present net revenue and operating income by Dell's reportable segments for the respective periods:

	Three Months Ended May 3, 2013				
	End User Computing	Enterprise Solutions Group	Dell Software Group	Dell Services	Total Segments
	(in millions)				
Net Revenue:					
External revenue	\$8,714	\$2,959	\$295	\$2,106	\$14,074
Internal revenue ^(a)	206	134	—	3	343
Total segment revenue	\$8,920	\$3,093	\$295	\$2,109	\$14,417
Segment operating income	\$224	\$136	\$(85	) \$370	\$645
	May 4, 2012				
	End User Computing	Enterprise Solutions Group	Dell Software Group	Dell Services	Total Segments
	(in millions)				
Net Revenue:					
External revenue	\$9,632	\$2,681	\$38	\$2,071	\$14,422
Internal revenue ^(a)	200	135	—	2	337
Total segment revenue	\$9,832	\$2,816	\$38	\$2,073	\$14,759
Segment operating income	\$639	\$79	\$(6	) \$338	\$1,050

Internal revenues primarily consist of origination fees related to the sale of extended warranty services within EUC ^(a) and ESG. The pricing for these transactions is based on the value related to extended warranty services created by each of the segments.

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The following tables present a reconciliation of total segment revenue and operating income to consolidated net revenue and operating income, respectively, for the periods presented below:

	Three Months Ended	
	May 3, 2013	May 4, 2012
	(in millions)	
Consolidated Net Revenue:		
Total segment revenue	\$ 14,417	\$ 14,759
Less internal revenue	(343)	(337)
Total consolidated net revenue	\$ 14,074	\$ 14,422
Consolidated Operating Income:		
Segment operating income	\$ 645	\$ 1,050
Unallocated corporate expenses ^(a)	(55)	(40)
Amortization of intangible assets	(196)	(110)
Severance and facility actions and acquisition-related costs ^(b)	(80)	(76)
Other ^(c)	(88)	—
Total consolidated operating income	\$ 226	\$ 824

^(a) Unallocated corporate expenses include broad based long-term incentives, certain short-term incentive compensation expenses, and other corporate items that are not allocated to Dell's segments.

^(b) Acquisition-related costs consist primarily of retention payments, integration costs, and consulting fees.

Other includes expenses associated with Dell's proposed merger. These expenses consist of professional fees incurred by Dell as well as the reimbursement of transaction-related expenses incurred by certain participants

^(c) approved by a Special Committee of the Board of Directors. Expenses associated with Dell's proposed merger also include special performance-based retention cash awards granted to certain key employees in the first quarter of Fiscal 2014 that will be payable in March 2014. These awards are expensed ratably over the performance period.

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DELL INC.

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(unaudited)

The following table presents net revenue by product and services categories:

	Three Months Ended	
	May 3, 2013	May 4, 2012
	(in millions)	
Net Revenue:		
End User Computing:		
Desktops and thin client	\$3,273	\$3,335
Mobility	3,618	4,328
Third-party software and peripherals	2,029	2,169
Total EUC revenue	8,920	9,832
Enterprise Solutions Group:		
Servers, peripherals, and networking	2,669	2,343
Storage	424	473
Total ESG revenue	3,093	2,816
Dell Software Group ^(a) :		
Total Dell Software Group revenue	295	38
Dell Services:		
Support and deployment	1,202	1,176
Infrastructure, cloud, and security	612	550
Applications and business process	295	347
Total Dell Services revenue	2,109	2,073
Total segment revenue	14,417	14,759
Less internal revenue	(343)	(337)
Total consolidated net revenue	\$14,074	\$14,422

^(a) Includes the results of Dell's Fiscal 2013 software acquisitions from their respective acquisition dates.

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

All percentage amounts and ratios presented in this management's discussion and analysis were calculated using the underlying data in thousands. Unless otherwise indicated, all changes identified for the current-period results represent comparisons to results for the prior corresponding fiscal periods. Our fiscal year is the 52 or 53 week period ending on the Friday nearest January 31. The fiscal year ending January 31, 2014 ("Fiscal 2014") will be a 52 week period. Unless the context indicates otherwise, references in this management’s discussion and analysis to “we,” “us,” “our” and “Dell” mean Dell Inc. and our consolidated subsidiaries. This management’s discussion and analysis should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended February 1, 2013, and the Consolidated Financial Statements and related notes included in that report.

INTRODUCTION

We are a leading global information technology company that offers our customers a broad range of products and services. We built our reputation through listening to customers and developing solutions that meet their needs. We believe that aligning our corporate structure with our product and services business units will allow us to better serve and demonstrate our scalable end-to-end solutions capabilities to our customers and execute our strategy. Accordingly, during the first quarter of Fiscal 2014, we completed the reorganization of our reportable segments from the customer-centric segments we maintained through Fiscal 2013 to reportable segments based on the following product and services business units: End-User Computing (“EUC”), the Enterprise Solutions Group (“ESG”), the Dell Software Group, and Dell Services. We began managing and reporting in this new structure in the first quarter of Fiscal 2014. See below for more information on our current reportable segments:

• End-User Computing (“EUC”) — EUC includes desktop PCs, thin client products, notebooks, tablets, third-party software, and EUC-related peripherals.

• Enterprise Solutions Group (“ESG”) — ESG includes servers, networking, storage, and ESG-related peripherals.

• Dell Software Group — The Dell Software Group includes systems management, security, and information management software offerings.

• Dell Services — Dell Services includes a broad range of IT and business services, including support and deployment services, infrastructure, cloud, and security services, and applications and business process services.

For further discussion regarding our segments, see "Results of Operations - Segment Discussion" in this Management's Discussion and Analysis and Note 14 of the Notes to the Condensed Consolidated Financial Statements included in “Part I - Item 1 - Financial Statements.”

A few years ago, we initiated a broad transformation of the company to become a leading provider of scalable end-to-end technology solutions, and we remain focused on this strategy. A key component of this transformation is to continue shifting our portfolio to products and services that provide higher-value and recurring revenue streams over time. As part of this strategy, we are expanding our ESG, software, and services offerings. We believe the most attractive areas for profitable growth in this business include data center and information management, cloud computing, and software. Our EUC offerings also continue to be an important element of our strategic transformation, and we believe the strategic and profitable expansion of our EUC offerings is critical to our long-term success. To complement this strategy, since the beginning of Fiscal 2012, we have completed a significant number of acquisitions that bring many new capabilities to Dell in areas such as scalable storage solutions, application migration, and software. We completed several of these acquisitions in Fiscal 2013, including our acquisitions of SonicWALL Inc. ("SonicWALL"), Wyse Technology, Inc., and Quest Software Inc ("Quest Software"). The comparability of our results of operations for the first quarter of Fiscal 2014 compared to the first quarter of Fiscal 2013 is affected by these acquisitions, although the impact is not material.

On February 5, 2013, we announced that we had signed a definitive agreement and plan of merger to be acquired by Denali Holding Inc., a Delaware corporation owned by Michael S. Dell, Chairman, Chief Executive Officer and founder of Dell, and investment funds affiliated with Silver Lake Partners, a global private equity firm. For more

information on this proposed transaction, see Note 1 of the Notes to the Condensed Consolidated Financial Statements included in “Part I - Item 1 - Financial Statements.”

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Presentation of Supplemental Non-GAAP Financial Measures

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

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RESULTS OF OPERATIONS

Consolidated Operations

The following table summarizes our consolidated results of operations for the three months ended May 3, 2013, and May 4, 2012:

	Three Months Ended May 3, 2013			May 4, 2012		
	Dollars	% of Revenue	% Change	Dollars	% of Revenue	
(in millions, except per share amounts and percentages)						
Net revenue:						
Product	\$10,902	77.5	% (5)	\$11,423	79.2	%
Services, including software related	3,172	22.5	% 6	2,999	20.8	%
Total net revenue	\$14,074	100.0	% (2)	\$14,422	100.0	%
Gross margin:						
Product	\$1,658	15.2	% (21)	\$2,093	18.3	%
Services, including software related	1,089	34.3	% 12	974	32.5	%
Total gross margin	\$2,747	19.5	% (10)	\$3,067	21.3	%
Operating expenses	\$2,521	17.9	% 12	\$2,243	15.6	%
Operating income	\$226	1.6	% (73)	\$824	5.7	%
Net income	\$130	0.9	% (79)	\$635	4.4	%
Earnings per share - diluted	\$0.07	N/A	(81)	\$0.36	N/A	
Other Financial Information ^(a)						
Non-GAAP gross margin	\$2,899	20.6	% (8)	\$3,167	22.0	%
Non-GAAP operating expenses	\$2,309	16.4	% 7	\$2,157	15.0	%
Non-GAAP operating income	\$590	4.2	% (42)	\$1,010	7.0	%
Non-GAAP net income	\$372	2.6	% (51)	\$761	5.3	%
Non-GAAP earnings per share - diluted	\$0.21	N/A	(51)	\$0.43	N/A	

Non-GAAP gross margin, non-GAAP operating expenses, non-GAAP operating income, non-GAAP net income, ^(a)and non-GAAP earnings per share are not measurements of financial performance prepared in accordance with GAAP. See “Non-GAAP Financial Measures” below for more information and a reconciliation of each non-GAAP financial measure to the most directly comparable GAAP financial measure.

Overview

During the first quarter of Fiscal 2014, our total net revenue decreased 2%, driven by a decline in revenue from End-User Computing, which was partially offset by an increase in revenue from our Enterprise Solutions Group and the Dell Software Group. Results attributable to our Dell Software Group include our Fiscal 2013 software acquisitions, which primarily consist of Quest Software and SonicWALL. Our EUC business continues to be impacted by an overall decline in the industry, a competitive pricing environment, and competition from alternative mobile solutions.

During the first quarter of Fiscal 2014, net revenue from our EUC segment decreased 9%, driven by a decline in mobility revenue, as we continued to experience a weakened demand environment in this business. Results attributable to our other segments were more favorable, led by a 10% increase in revenue from ESG. This increase was driven by strong revenue growth from our data center servers during the first quarter of Fiscal 2014. Approximately 2% of total segment revenue for the first quarter of Fiscal 2014 was attributable to our Fiscal 2013

software acquisitions. Revenue from Dell Services increased 2% during the first quarter of Fiscal 2014 due to an increase in revenue from infrastructure, cloud, and security services.

During the first quarter of Fiscal 2014, our consolidated operating income as a percentage of net revenue decreased 410 basis points to 1.6%. EUC operating income as a percentage of net revenue decreased 400 basis points to 2.5% during the first quarter of Fiscal 2014, as we continued to face a competitive environment and adjusted our pricing strategy to invest in growth

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in advance of planned reductions in our cost structure. As we continued to invest in our software capabilities with additional sales capacity and spending for research, development, and engineering activities, the Dell Software Group generated an operating loss percentage of 28.7% for the first three months of Fiscal 2014. These declines were partially offset by improved operating income percentages from our ESG and Dell Services segments. Operating income as a percentage of revenue for ESG and Dell Services increased 160 basis points and 130 basis points to 4.4% and 17.6%, respectively. In aggregate, operating income from ESG, the Dell Software Group, and Dell Services represented approximately 65% of total segment operating income for the first quarter of Fiscal 2014, compared to 39% for the first quarter of Fiscal 2013.

As of May 3, 2013, we had \$13.2 billion of total cash, cash equivalents, and investments and \$7.2 billion in total debt. In comparison, as of February 1, 2013, we had \$15.3 billion of total cash, cash equivalents, and investments and \$9.1 billion in total debt. Cash used in operating activities were \$39 million and \$138 million for the first three months of Fiscal 2014 and Fiscal 2013, respectively. During the first three months of Fiscal 2014, we continued to maintain an efficient cash conversion cycle as well as strong cash and investment positions. We believe that we can generate cash flow from operations in excess of net income over the long term.

We continue to expect relatively weak demand in our EUC business and market competitiveness. However, we believe the EUC business is an important component of our overall strategy. We recognize that our transformation to a leading provider of scalable end-to-end technology solutions will take more time and investment, and we are making investments and continuing to execute various cost savings initiatives that we believe will benefit our long-term profitability and cash flow. In the long-run, we believe that we will profitably grow revenue and operating income through the expansion of our enterprise solutions, services, and software businesses and the strategic extension of our EUC offerings.

Revenue

• **Product Revenue** — Product revenue decreased 5% during the first three months of Fiscal 2014, driven by a decline in revenue attributable to our EUC segment, which was partially offset by an increase in revenue from our ESG segment.

Services Revenue, including software related — Services revenue, including software related, includes revenue from Dell Services, third-party software revenue, and support services related to Dell-owned software offerings. These services increased 6% during the first three months of Fiscal 2014, driven by support services from Dell-owned software offerings, due to our Fiscal 2013 software acquisitions. Software related services, including third-party offerings, represented 34% and 31% of services revenue for the first three months of Fiscal 2014 and Fiscal 2013, respectively. Services revenue, excluding software related, increased 2% during the first quarter of Fiscal 2014.

See "Segment Discussion" below for further information regarding product revenue and revenue from the Dell Software Group and Dell Services.

During the first three months of Fiscal 2014, revenue from outside the U.S. decreased 6%, while revenue from the U.S. increased 2%. Revenue from outside the U.S. represented 50% of total net revenue for the first three months of Fiscal 2014, compared to 52% for the first three months of Fiscal 2013. Revenue from most emerging countries declined during the first three months of Fiscal 2014. We continue to view these geographical markets, which include the vast majority of the world's population, as a long-term growth opportunity. Accordingly, we continue to pursue development of technology solutions that meet the needs of these markets.

We manage our business on a U.S. dollar basis and factor foreign currency exchange rate movements into our pricing decisions. In addition, we utilize a comprehensive hedging strategy intended to mitigate the impact of foreign currency volatility over time. As a result of our hedging programs, the impact of foreign currency movements was not material to our total net revenue for the first three months of Fiscal 2014.

Gross Margin

Products — During the first three months of Fiscal 2014, product gross margins decreased in dollars and in gross margin percentage. Product gross margin percentage decreased from 18.3% to 15.2% for the first quarter of Fiscal 2014. The decline in product gross margins was primarily attributable to our EUC segment, where we continued to face a competitive environment and adjusted our pricing strategy to invest in growth in advance of planned reductions in our cost structure.

Services, including software related — During the first three months of Fiscal 2014, our gross margin for services, including software related, increased in absolute dollars and in gross margin percentage. Our gross margin percentage for services, including software related, increased from 32.5% to 34.3% for the first quarter of Fiscal 2014. This increase was driven by higher gross margin percentages from services attributable to the Dell Software Group.

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During the first quarter of Fiscal 2014, our total gross margin decreased 10% to \$2.7 billion on a GAAP basis and 8% to \$2.9 billion on a non-GAAP basis. Gross margin on a GAAP basis for the first three months of Fiscal 2014 and Fiscal 2013 includes the effects of amortization of intangible assets and of severance and facility action costs and acquisition-related charges. As set forth in the reconciliation under "Non-GAAP Financial Measures" below, these items are excluded from the calculation of non-GAAP gross margin for the first three months of Fiscal 2014 and Fiscal 2013. Amortization of intangible assets included in GAAP gross margin increased 58% to \$140 million during the first quarter of Fiscal 2014. This increase was primarily attributable to an increase in purchased intangible assets over the period.

Vendor Programs and Settlements

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

The terms and conditions of our vendor rebate programs are largely based on product volumes and are generally not long-term in nature, but instead are typically negotiated at the beginning of each quarter. Because of the fluid nature of these ongoing negotiations, which reflect changes in the competitive environment, the timing and amount of vendor rebates and other discounts we receive under the programs may vary from period to period. We monitor our component costs and seek to address the effects of any changes to terms that might arise under our vendor rebate programs. Our gross margins for the first three months of Fiscal 2014 and Fiscal 2013 were not materially affected by any changes to the terms of our vendor rebate programs, as the amounts we received under these programs were generally stable relative to our total net cost. We are not aware of any significant programmatic changes to vendor pricing or rebate programs that may impact our results in the near term.

In addition, we have pursued legal action against certain vendors and are currently involved in negotiations with other vendors regarding their past pricing practices. We have negotiated settlements with some of these vendors and may have additional settlements in future quarters. These settlements are allocated to our segments based on the relative amount of affected vendor products used by each segment. Our gross margins for the first quarters of Fiscal 2014 and Fiscal 2013 were not affected by negotiated vendor settlements.

Operating Expenses

The following table presents information regarding our operating expenses for the three months ended May 3, 2013, and May 4, 2012:

	Three Months Ended			May 4, 2012		
	May 3, 2013			May 4, 2012		
	Dollars	% of Revenue	% Change	Dollars	% of Revenue	
	(in millions, except percentages)					
Operating expenses:						
Selling, general, and administrative	\$2,208	15.7	% 10	% \$2,009	13.9	%
Research, development, and engineering	313	2.2	% 34	% 234	1.7	%
Total operating expenses	\$2,521	17.9	% 12	% \$2,243	15.6	%

Other Financial Information

Non-GAAP operating expenses ^(a)	\$2,309	16.4	%	7	%	\$2,157	15.0	%
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^(a) For a reconciliation of non-GAAP operating expenses to operating expenses prepared in accordance with GAAP, see "Non-GAAP Financial Measures" below.

Selling, General, and Administrative — During the first three months of Fiscal 2014, selling, general, and administrative ("SG&A") expenses increased 10%, driven by costs associated with our proposed merger and an increase in compensation-related expenses during the period. Compensation-related expenses, excluding severance and special performance-based

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retention cash awards granted in the first quarter of Fiscal 2014, increased 7% during the first three months of Fiscal 2014, due to our Fiscal 2013 acquisitions.

Research, Development, and Engineering — During the first three months of Fiscal 2014, research, development, and engineering expenses were 2.2% of net revenue compared to 1.7% for the same period in the prior year. This increase was driven by investments in our software capabilities.

Total operating expenses for the first quarter of Fiscal 2014 increased 12% to \$2.5 billion on a GAAP basis and 7% to \$2.3 billion on a non-GAAP basis. Operating expenses on a GAAP basis for the first three months of Fiscal 2014 and Fiscal 2013 include the effects of amortization of intangible assets and of severance and facility action costs and acquisition-related charges. In addition, operating expenses on a GAAP basis for the first three months of Fiscal 2014 include expenses associated with the proposed merger, which include transaction costs as well as special performance-based retention cash awards granted to certain key employees in the first quarter of Fiscal 2014 (the "Merger-Related Costs"). As set forth in the reconciliation under "Non-GAAP Financial Measures" below, all of these costs are excluded from the calculation of non-GAAP operating expenses for the first three months of Fiscal 2014 and Fiscal 2013. In aggregate, these charges increased \$126 million to \$212 million during the first quarter of Fiscal 2014. This increase was primarily attributable to the Merger-Related Costs, which impacted operating expenses by \$86 million during the first three months of Fiscal 2014.

Operating and Net Income

Operating Income — During the first quarter of Fiscal 2014, operating income dollars and percentage declined 73% and 410 basis points, respectively, on a GAAP basis, and 42% and 280 basis points, respectively, on a non-GAAP basis. The decrease in non-GAAP operating income percentage was driven by declines in product gross margin percentage, primarily attributable to EUC, the effects of which were partially offset by improved gross margin percentages for services, including software related. In addition, operating expenses as a percentage of revenue increased during the first quarter of Fiscal 2014. Operating income on a GAAP basis for the first quarter of Fiscal 2014 includes increases in amortization of intangibles as well as the Merger-Related Costs.

Net Income — During the first quarter of Fiscal 2014, net income decreased 79% to \$130 million on a GAAP basis and 51% to \$372 million on a non-GAAP basis. Net income on a GAAP and non-GAAP basis was impacted by a decrease in operating income.

Non-GAAP Financial Measures

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

The non-GAAP financial measures presented in this report include non-GAAP gross margin, non-GAAP operating expenses, non-GAAP operating income, non-GAAP net income, and non-GAAP earnings per share. These non-GAAP financial measures, as defined by us, represent the comparable GAAP measures adjusted to exclude severance and facility action costs and acquisition-related charges, amortization of purchased intangible assets related to acquisitions, and the Merger-Related Costs. Non-GAAP net income and non-GAAP earnings per share also includes the aggregate adjustment for income taxes related to the exclusion of the above items. For more information on each of these items and our reasons for excluding them, see the discussion below. In future fiscal periods, we may exclude such items and may incur income and expenses similar to these excluded items. Accordingly, the exclusion of these items and other similar items in our non-GAAP presentation should not be interpreted as implying that these

items are non-recurring, infrequent, or unusual.

There are limitations to the use of the non-GAAP financial measures presented in this report. Our non-GAAP financial measures may not be comparable to similarly titled measures of other companies. Other companies, including companies in our industry, may calculate non-GAAP financial measures differently than we do, limiting the usefulness of those measures for comparative purposes. In addition, items such as amortization of purchased intangible assets represent the loss in value of intangible assets over time. The expense associated with this loss in value is not included in the non-GAAP financial measures and such measures, therefore, do not reflect the full economic effect of such loss. Further, items such as severance and facility actions, acquisition-related costs, and other charges that are excluded from the non-GAAP financial measures can have a material impact on earnings. Our management compensates for the foregoing limitations by relying primarily on GAAP results

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and using non-GAAP financial measures supplementally or for projections when comparable GAAP financial measures are not available. The non-GAAP financial measures are not meant to be considered as indicators of performance in isolation from or as a substitute for gross margin, operating expenses, operating income, net income, and earnings per share prepared in accordance with GAAP, and should be read only in conjunction with financial information presented on a GAAP basis. See below for reconciliations of each non-GAAP financial measure to its most directly comparable GAAP financial measure. We encourage you to review the reconciliations in conjunction with the presentation of the non-GAAP financial measures for each of the periods presented.

The following is a summary of the costs and other items excluded from the most comparable GAAP financial measures to calculate non-GAAP financial measures:

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

Amortization of Intangible Assets - Amortization of purchased intangible assets consists primarily of amortization of customer relationships, acquired technology, non-compete covenants, and trade names purchased in connection with business acquisitions. We incur charges related to the amortization of these intangibles, and those charges are included in our Condensed Consolidated Financial Statements. Amortization charges for purchased intangible assets are significantly impacted by the timing and magnitude of our acquisitions. Accordingly, these charges may vary in amount from period to period. We exclude these charges for purposes of calculating the non-GAAP financial measures presented below to facilitate a more meaningful evaluation of our current operating performance and comparisons to our past operating performance.

Other Items - We also adjust our GAAP financial results for the Merger-Related Costs, which consist of transaction expenses associated with the proposed merger as well as expenses associated with special performance-based retention cash awards granted to certain key employees in the first quarter of Fiscal 2014. Transaction expenses include professional fees incurred by us in connection with the proposed merger as well as the reimbursement of transaction-related expenses incurred by certain participants approved by a Special Committee of the Board of Directors. We are excluding these expenses for the purpose of calculating the non-GAAP financial measures presented below because we believe these items are outside our ordinary course of business and do not contribute to a meaningful evaluation of our current operating performance or comparisons to our past operating performance.

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

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The table below presents a reconciliation of each non-GAAP financial measure to the most comparable GAAP measure for each of the three months ended May 3, 2013, and May 4, 2012:

	Three Months Ended		
	May 3, 2013	% Change	May 4, 2012
	(in millions, except per share amounts and percentages)		
GAAP gross margin	\$2,747	(10)%	\$3,067
Non-GAAP adjustments:			
Amortization of intangibles	140		88
Severance and facility actions and acquisition-related costs	10		12
Other	2		—
Non-GAAP gross margin	\$2,899	(8)%	\$3,167
GAAP operating expenses	\$2,521	12 %	\$2,243
Non-GAAP adjustments:			
Amortization of intangibles	(56)		(22)
Severance and facility actions and acquisition-related costs	(70)		(64)
Other	(86)		—
Non-GAAP operating expenses	\$2,309	7 %	\$2,157
GAAP operating income	\$226	(73)%	\$824
Non-GAAP adjustments:			
Amortization of intangibles	196		110
Severance and facility actions and acquisition-related costs	80		76
Other	88		—
Non-GAAP operating income	\$590	(42)%	\$1,010
GAAP net income	\$130	(79)%	\$635
Non-GAAP adjustments:			
Amortization of intangibles	196		110
Severance and facility actions and acquisition-related costs	80		76
Other	88		—
Aggregate adjustment for income taxes	(122)		(60)
Non-GAAP net income	\$372	(51)%	\$761
GAAP earnings per share - diluted	\$0.07	(81)%	\$0.36
Non-GAAP adjustments per share - diluted	0.14		0.07
Non-GAAP earnings per share - diluted	\$0.21	(51)%	\$0.43

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	Three Months Ended			
	May 3, 2013		May 4, 2012	
Percentage of Total Net Revenue				
GAAP gross margin	19.5	%	21.3	%
Non-GAAP adjustments	1.1	%	0.7	%
Non-GAAP gross margin	20.6	%	22.0	%
GAAP operating expenses	17.9	%	15.6	%
Non-GAAP adjustments	(1.5)	)%	(0.6)	)%
Non-GAAP operating expenses	16.4	%	15.0	%
GAAP operating income	1.6	%	5.7	%
Non-GAAP adjustments	2.6	%	1.3	%
Non-GAAP operating income	4.2	%	7.0	%
GAAP net income	0.9	%	4.4	%
Non-GAAP adjustments	1.7	%	0.9	%
Non-GAAP net income	2.6	%	5.3	%

Segment Discussion

During the first quarter of Fiscal 2014, we completed the reorganization of our reportable segments from the customer-centric segments we maintained through Fiscal 2013 to reportable segments based on the following four product and services business units:

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

We began managing and reporting in this new structure in the first quarter of Fiscal 2014. Our EUC segment includes desktop PCs, thin client products, notebooks, tablets, third-party software, and EUC-related peripherals, while our ESG segment includes servers, networking, storage, and ESG-related peripherals. The Dell Software Group includes systems management, security, and information management software offerings. Dell Services includes a broad range of IT and business services, including support and deployment services, infrastructure, cloud, and security services, and applications and business process services.

Our measure of segment operating income for management reporting purposes excludes amortization of intangible assets, severance and facility action costs and acquisition-related charges, unallocated corporate expenses, and the Merger-Related Costs. In aggregate, these costs were \$419 million and \$226 million for the first three months of Fiscal 2014 and Fiscal 2013, respectively. This increase was driven by the Merger-Related Costs as well as an increase in amortization of intangible assets during the first quarter of Fiscal 2014. In addition, segment results include internal revenue transactions, which primarily consist of origination fees related to the sale of extended warranty services within EUC and ESG.

See Note 14 of the Notes to the Condensed Consolidated Financial Statements included in “Part I — Item 1 — Financial Statements” for additional information and a reconciliation of segment revenue and operating income to consolidated revenue and operating income.

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End-User Computing:

The following table presents revenue and operating income attributable to our EUC segment for the three months ended May 3, 2013, and May 4, 2012:

	Three Months Ended		
	May 3, 2013	% Change	May 4, 2012
	(in millions, except percentages)		
Net Revenue:			
Desktops and thin client	\$3,273	(2	)% \$3,335
Mobility	3,618	(16	)% 4,328
Third-party software and peripherals	2,029	(6	)% 2,169
Total EUC revenue	\$8,920	(9	)% \$9,832
Operating Income:			
EUC operating income	\$224	(65	)% \$639
% of segment revenue	2.5	%	6.5 %

During the first quarter of Fiscal 2014, EUC experienced a 9% decrease in net revenue, driven by a 16% decline in revenue from our mobility products. This decrease was attributable to a 20% decline in unit sales resulting from the weakened demand environment. This decrease was partially offset by a 5% increase in average selling prices during the period, as we experienced a mix shift towards our higher-value mobility offerings. Mobility revenue continues to be impacted by an overall decline in the industry, a competitive pricing environment, and competition from alternative mobile solutions. Revenue from desktop PCs and thin client products decreased 2% during the first quarter of Fiscal 2014. This decline was driven by a 4% decrease in unit sales and a 1% decline in average selling prices for desktops during the period. During the first quarter of Fiscal 2014, revenue from third-party software and peripherals decreased 6%, as we experienced a decrease in unit sales of our EUC offerings, which limited the sales volume of third-party software and peripherals. At a regional level, EUC revenue declined across all regions during the first quarter of Fiscal 2014, led by a decline in revenue from Asia Pacific and Japan ("APJ").

During the first quarter of Fiscal 2014, EUC's operating income as a percentage of revenue decreased 400 basis points to 2.5%. This decrease was primarily attributable to declines in gross margin percentages for our products, as we continued to face a competitive environment and adjusted our pricing strategy to invest in growth in advance of planned reductions in our cost structure.

Enterprise Solutions Group:

The following table presents revenue and operating income attributable to our ESG segment for the three months ended May 3, 2013, and May 4, 2012:

	Three Months Ended		
	May 3, 2013	% Change	May 4, 2012
	(in millions, except percentages)		
Net Revenue:			
Servers, peripherals, and networking	\$2,669	14	% \$2,343
Storage	424	(10	)% 473
Total ESG revenue	\$3,093	10	% \$2,816
Operating Income:			
ESG operating income	\$136	71	% \$79
% of segment revenue	4.4	%	2.8 %

During the first quarter of Fiscal 2014, ESG experienced a 10% increase in net revenue, driven by a 14% increase in revenue from servers, peripherals, and networking. In particular, we experienced strong revenue growth from our data center solutions offerings during the first quarter of Fiscal 2014. During the first quarter of Fiscal 2014, average selling prices for our servers increased 16%, due to a mix shift towards our new-generation servers, while demand for our servers was essentially

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unchanged. This increase was partially offset by a 10% decline in storage revenue during the first quarter of Fiscal 2014, as we continued to optimize our storage solutions and improve our sales structure. At a regional level, ESG revenue increased across all regions during the first quarter of Fiscal 2014, led by an increase in revenue from the U.S.

During the first quarter of Fiscal 2014, ESG's operating income as a percentage of revenue increased 160 basis points to 4.4%. This increase was primarily attributable to a decrease in operating expenses as a percentage of revenue that resulted from a decline in SG&A expenses. This improvement in operating expenses as a percentage of revenue was partially offset by reduced gross margin percentages for our products.

Dell Software Group:

The following table presents revenue and operating income attributable to the Dell Software Group for the three months ended May 3, 2013, and May 4, 2012, which include the results of Dell's Fiscal 2013 software acquisitions from their respective acquisition dates:

	Three Months Ended		
	May 3, 2013	% Change	May 4, 2012
	(in millions, except percentages)		
Net Revenue:			
Dell Software Group revenue	\$295	NM	\$38
Operating Income:			
Dell Software Group operating loss	\$(85)	) NM	\$(6)
% of segment revenue	(28.7)	)%	(16.0)

During Fiscal 2013, we completed several software acquisitions, including our acquisitions of Quest Software and SonicWALL. Substantially all of the results attributable to the Dell Software Group for the first three months of Fiscal 2014 are related to these acquisitions. The Dell Software Group includes systems management, security, and information management software offerings. During the first quarter of Fiscal 2014, the Dell Software Group delivered \$295 million in revenue and incurred an operating loss of \$85 million, which represents an operating loss percentage of 28.7%, as we continued to make investments in additional sales capacity and research, development, and engineering activities. Revenue attributable to the Dell Software Group is primarily derived from sales in the U.S. and Western Europe. We are continuing to enhance our software capabilities, as we believe that software will continue to play an increasingly important role in our strategy to become a leading provider of scalable end-to-end technology solutions.

Dell Services:

The following table presents revenue and operating income attributable to Dell Services for the three months ended May 3, 2013, and May 4, 2012:

	Three Months Ended		
	May 3, 2013	% Change	May 4, 2012
	(in millions, except percentages)		
Net Revenue:			
Support and Deployment	\$1,202	2	% \$1,176
Infrastructure, cloud, and security services	612	11	% 550
Applications and business process services	295	(15)	)% 347
Total Dell Services revenue	\$2,109	2	% \$2,073

Operating Income:

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Dell Services operating income	\$370	10	%	\$338	
% of segment revenue	17.6	%		16.3	%

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During the first quarter of Fiscal 2014, Dell Services experienced a 2% increase in net revenue, driven by an 11% increase in revenue from our infrastructure, cloud, and security offerings due to an increase in contract signings in recent periods. In addition, revenue from support and deployment services, which consist of support and extended warranty services, enterprise installation, and configuration services, increased 2% during the first quarter of Fiscal 2014. These increases were partially offset by a 15% decrease in revenue from applications and business process services, driven by a Fiscal 2013 divestiture and select contract expirations, as we continue to work to improve the profitability of this business. Although we experienced declines in unit sales of our EUC offerings during the first quarter of Fiscal 2014, we are continuing to enhance our portfolio of value-added attached services. At a regional level, the increase in Dell Services revenue was driven by an increase in revenue from APJ. Revenue from EMEA increased slightly, while revenue attributable to the Americas declined slightly.

During the first quarter of Fiscal 2014, operating income as a percentage of revenue attributable to Dell Services increased 130 basis points to 17.6%. This increase was primarily attributable to a decrease in operating expenses as a percentage of revenue, due to improvements in our cost structure.

During the first quarter of Fiscal 2014, deferred services revenue decreased 2% when compared to the balance as of February 1, 2013. In addition, during the same period, services backlog decreased 3% to \$8.4 billion as of May 3, 2013, compared to \$8.7 billion as of February 1, 2013. We provide information regarding services backlog because we believe it provides useful trend information regarding changes in the size of our services business over time. See "Part II — Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Results of Operations — Revenue by Product and Services Categories — Services" in our Annual Report on Form 10-K for the fiscal year ended February 1, 2013, for more information on our services backlog calculation.

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Interest and Other, Net

The following table provides a detailed presentation of interest and other, net for the three months ended May 3, 2013, and May 4, 2012:

	Three Months Ended	
	May 3, 2013	May 4, 2012
	(in millions)	
Interest and other, net:		
Investment income, primarily interest	\$19	\$29
Gains on investments, net	1	6
Interest expense	(63	) (69
Foreign exchange	(19	) 10
Other	(6	) (8
Interest and other, net	\$(68	) \$(32

During the first quarter of Fiscal 2014, changes in interest and other, net were unfavorable by \$36 million, when compared to the same period in Fiscal 2013. This change was primarily attributable to foreign exchange losses incurred during the first quarter of Fiscal 2014, due to higher costs associated with our hedging program and revaluations of certain un-hedged foreign currencies. In addition, investment income decreased during the first quarter of Fiscal 2014, compared to the first quarter of Fiscal 2013, due to the decline in the size of our investment portfolio.

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Income and Other Taxes

Our effective income tax rate was 17.6% and 19.8% for the first quarters of Fiscal 2014 and Fiscal 2013, respectively. The decrease in our effective income tax rate for the three months ended May 3, 2013, was primarily attributable to the increase in permanent differences as a relative percentage of pre-tax income. In addition, pre-tax income for the three months ended May 3, 2013 includes the Merger-Related Costs, which were primarily incurred in higher tax jurisdictions.

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

For further discussion regarding tax matters, including the status of income tax audits, see Note 12 of the Notes to the Condensed Consolidated Financial Statements included in "Part I — Item 1 — Financial Statements."

ACCOUNTS RECEIVABLE

We sell products and services directly to customers and through a variety of sales channels, including retail distribution. Our accounts receivable, net was \$6.4 billion and \$6.6 billion as of May 3, 2013, and February 1, 2013, respectively, which represents a 3% decrease. The decrease in accounts receivable, net was primarily due to a decline in revenue in the first quarter of Fiscal 2014, compared to the fourth quarter of Fiscal 2013. We maintain an allowance for doubtful accounts to cover receivables that may be deemed uncollectible. The allowance for losses is based on specific identifiable customer accounts that are deemed at risk and a provision for accounts that are collectively evaluated based on historical bad debt experience. As of May 3, 2013, and February 1, 2013, the allowance for doubtful accounts was \$73 million and \$72 million, respectively. Based on our assessment, we believe we are adequately reserved for expected credit losses. We monitor the aging of our accounts receivable and continue to take actions to reduce our exposure to credit losses.

DELL FINANCIAL SERVICES AND FINANCING RECEIVABLES

Dell Financial Services ("DFS") offers a wide range of financial services, including originating, collecting, and servicing customer receivables primarily related to the purchase of Dell products. In some cases, we may originate financing activities for our commercial customers related to the purchase of third-party technology products that complement our portfolio of products and services. New financing originations, which represent the amounts of financing provided by DFS to customers for equipment and related software and services, including third-party originations, were \$719 million and \$812 million for the first quarters of Fiscal 2014 and Fiscal 2013, respectively. At May 3, 2013, and February 1, 2013, our net financing receivables balances were \$4.4 billion and \$4.6 billion, respectively.

To support the financing needs of our customers internationally, we have aligned with a select number of third-party financial services companies. During Fiscal 2012, we entered into a definitive agreement to acquire CIT Vendor Finance's Dell-related financing assets portfolio and sales and servicing functions in Europe for approximately \$500 million. Subject to customary closing, regulatory, and other conditions, we expect to complete this transaction during the second half of Fiscal 2014.

In connection with this transaction, we have filed an application for a bank license with The Central Bank of Ireland to facilitate ongoing financing offerings in Europe, and we are expecting it to be approved by the end of the second quarter of Fiscal 2014.

We have securitization programs to fund revolving loans and fixed-term leases and loans through consolidated special purpose entities ("SPEs"), which we account for as secured borrowings. We transfer certain U.S. customer financing receivables to these SPEs, whose purpose is to facilitate the funding of customer receivables through financing arrangements with multi-seller conduits that issue asset-backed debt securities in the capital markets. During the first quarters of Fiscal 2014 and Fiscal 2013, we transferred \$534 million and \$536 million, respectively, to these SPEs. Our risk of loss related to these securitized receivables is limited to the amount of our over-collateralization in the transferred pool of receivables. At May 3, 2013, and February 1, 2013, the structured financing debt related to all of our secured borrowing securitization programs was \$1.5 billion and \$1.3 billion, respectively, and the net carrying amount of the corresponding financing receivables was \$1.6 billion and \$1.5 billion, respectively.

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We maintain an allowance to cover expected financing receivable credit losses and evaluate credit loss expectations based on our total portfolio. For the first quarters of Fiscal 2014 and Fiscal 2013, the principal charge-off rate for our total portfolio was 3.8% and 4.1%, respectively. The credit quality mix of our financing receivables has improved in recent years due to our underwriting actions and as the mix of high-quality commercial accounts in our portfolio has increased. The allowance for losses is determined based on various factors, including historical and anticipated experience, past due receivables, receivable type, and customer risk profile. At May 3, 2013, and February 1, 2013, the allowance for financing receivable losses was \$179 million and \$192 million, respectively. We expect the loss rates in the coming quarters to stabilize with movements in these rates being primarily driven by seasonality and a continued shift in portfolio composition to lower risk commercial assets. We continue to monitor broader economic indicators and their potential impact on future loss performance. We have an extensive process to manage our exposure to customer risk, including active management of credit lines and our collection activities. We also sell selected fixed-term financing receivables to unrelated third parties on a periodic basis, primarily to manage certain concentrations of customer credit exposure. Based on our assessment of the customer financing receivables, we believe that we are adequately reserved.

See Note 4 of the Notes to the Condensed Consolidated Financial Statements included in “Part I — Item 1 — Financial Statements” for additional information about our financing receivables and the associated allowance.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet financing arrangements.

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LIQUIDITY, CAPITAL COMMITMENTS, AND CONTRACTUAL CASH OBLIGATIONS

Current Market Conditions

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

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

We also use derivative instruments to hedge certain foreign currency exposures. We use forward contracts and purchased options designated as cash flow hedges to protect against the foreign currency exchange rate risks inherent in our forecasted transactions denominated in currencies other than the U.S. dollar. In addition, we use forward contracts and purchased options to hedge monetary assets and liabilities denominated in a foreign currency. See Note 6 of the Notes to the Condensed Consolidated Financial Statements under “Part I — Item 1 — Financial Statements” for more information about our use of derivative instruments.

See “Part I — Item 1A — Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended February 1, 2013, for further discussion of risks associated with adverse global economic conditions and instability, our use of counterparties, and our ability to effectively hedge our exposure to fluctuations in foreign currency exchange rates. The impact on our Condensed Consolidated Financial Statements for the first quarter of Fiscal 2014 of any credit adjustments related to these counterparties has been immaterial.

Liquidity

Our strategy is to deploy capital from any potential source, whether internally generated cash or debt, depending on the adequacy and availability of that source of capital and whether it can be accessed in a cost effective manner. In general, we seek to deploy our capital in a systematically prioritized manner, focusing first on requirements for operations, then on growth investments, and finally on returns of cash to stockholders. While cash generated from operations is our primary source of operating liquidity, we use a variety of capital sources, such as our available borrowings, to fund the growth in our financing receivables, fund our needs for less predictable strategic initiatives, and return capital to stockholders. The merger agreement for our proposed merger transaction, described in Note 1 of the Notes to the Condensed Consolidated Financial Statements under “Part I — Item 1 — Financial Statements,” places certain limitations on the amount of debt we can assume and on our use of cash, including our application of cash to repurchase shares, declare quarterly dividends in excess of \$0.08 per share, and pursue significant business acquisitions.

During Fiscal 2014, subsequent to the announcement of the proposed merger, our credit rating was downgraded by all three major credit rating agencies. One of these agencies downgraded our credit rating to below investment grade, which significantly limits our ability to access the commercial paper market. If the proposed merger is not consummated, our credit rating may continue to be impacted, which will prolong our more limited access to the capital markets. We believe that internally generated cash flows, which consist of operating cash flows, are sufficient to support our day-to-day business operations, both domestically and internationally, for at least the next 12 months.

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As of May 3, 2013, we had \$13.2 billion in cash, cash equivalents, and investments, substantially all of which was held outside of the U.S. We access our foreign cash balances in a tax efficient manner when appropriate. The following table summarizes our cash, investments, and available borrowings as of May 3, 2013, and February 1, 2013:

	May 3, 2013	February 1, 2013
	(in millions)	
Cash, cash equivalents, and investments:		
Cash and cash equivalents	\$10,419	\$12,569
Investments	2,789	2,773
Cash, cash equivalents, and investments	13,208	15,342
Unsecured revolving credit facilities	2,000	3,000
Total cash, cash equivalents, investments, and available borrowings	\$15,208	\$18,342

We have senior unsecured revolving credit facilities primarily to support our commercial paper program, although we may use the borrowings under these facilities for other corporate purposes. During the first quarter of Fiscal 2014, \$1.0 billion of our senior unsecured revolving credit facilities expired, and we did not renew this program. No amounts were outstanding under our revolving credit facilities as of May 3, 2013, or February 1, 2013.

Of our \$13.2 billion of cash, cash equivalents, and investments as of May 3, 2013, \$10.4 billion is classified as cash and cash equivalents. Our cash equivalents primarily consist of money market funds and certificates of deposit. The remaining \$2.8 billion of investments is primarily invested in fixed income securities of varying maturities at the date of acquisition. The fair value of our portfolio can be affected by interest rate movements, credit risk, and liquidity risks. The objective of our investment policy and strategy is to manage our total cash and investments balances to preserve principal and maintain liquidity while maximizing the return on the investment portfolio through the full investment of available funds. We diversify our investment portfolio by investing in multiple types of investment-grade securities and through the use of third-party investment managers.

A significant portion of our income is earned in non-U.S. jurisdictions. Under current law, earnings available to be repatriated to the U.S. would be subject to U.S. federal income tax, less applicable foreign tax credits. We have provided for the U.S. federal tax liability on these amounts for financial statement purposes, except for foreign earnings that are considered permanently reinvested outside of the U.S. We utilize a variety of tax planning and financing strategies with the objective of having our worldwide cash available in the locations where it is needed. The following table summarizes our outstanding debt as of May 3, 2013, and February 1, 2013:

	May 3, 2013	February 1, 2013
	(in millions)	
Outstanding Debt		
Senior notes and debentures	\$5,388	\$5,988
Structured financing debt	1,453	1,288
Commercial paper	405	1,807
Other	2	2
Total debt	\$7,248	\$9,085

During the three months ended May 3, 2013, total debt decreased \$1.8 billion, primarily due to the repayment of \$1.4 billion in outstanding commercial paper and \$600 million in maturing senior notes. We have \$1.7 billion in senior notes that will mature during the next twelve months. We expect to use a combination of cash from operations, existing cash balances, and our available borrowing resources to repay these maturing notes.

We also issue structured financing-related debt to fund our financing receivables as discussed under “Financing Receivables” above. As of May 3, 2013, we had \$1.5 billion in outstanding structured financing securitization debt. Our securitization programs are structured to operate near their debt capacity and are generally effective for 6 to 12 months. We balance the use of our securitization programs with working capital and other sources of liquidity to fund growth in our financing receivables. See Note 4 of the Notes to the Condensed Consolidated Financial Statements under “Part I — Item 1 — Financial Statements” for further discussion of our structured financing debt. Under the merger

agreement, we may not incur debt under these programs of more than \$1.5 billion outstanding at any time.

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We intend to maintain appropriate debt levels, subject to the limitations under the merger agreement, based upon cash flow expectations, the overall cost of capital, cash requirements for operations, and discretionary spending, including spending for permitted business acquisitions and permitted dividend payments. See Note 5 of the Notes to the Condensed Consolidated Financial Statements under “Part I — Item 1 — Financial Statements” for further discussion of our debt.

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

The following table contains a summary of our Condensed Consolidated Statements of Cash Flows for the three months ended May 3, 2013, and May 4, 2012:

	Three Months Ended	
	May 3, 2013	May 4, 2012
	(in millions)	
Net change in cash from:		
Operating activities	\$(39)	\$(138)
Investing activities	(137)	(365)
Financing activities	(1,957)	(532)
Effect of exchange rate changes on cash and cash equivalents	(17)	(3)
Change in cash and cash equivalents	\$(2,150)	\$(1,038)

Operating Activities — Cash used in operations was \$39 million for the first quarter of Fiscal 2014, compared to \$138 million for the first quarter of Fiscal 2013. This improvement in operating cash flows was primarily driven by favorable changes in working capital, which was largely offset by a decrease in net income.

Investing Activities — Investing activities primarily consist of the sales and purchases of investments, net of maturities, capital expenditures for property, plant, and equipment, and cash used to fund strategic acquisitions. Cash used in investing activities was \$137 million and \$365 million during the first three months of Fiscal 2014 and Fiscal 2013, respectively. The overall decrease in cash used in investing activities was driven by lower spending on business acquisitions during the first quarter of Fiscal 2014, compared to the first quarter of Fiscal 2013.

Financing Activities — Financing activities primarily consist of proceeds and repayments from borrowings and the repurchase of our common stock. Cash used in financing activities during the first three months of Fiscal 2014 was \$2.0 billion compared to \$532 million for the first three months of Fiscal 2013. This increase in cash used in financing activities was primarily attributable to the repayment of \$1.4 billion in outstanding commercial paper during the first three months of Fiscal 2014, compared to a net repayment of \$312 million in outstanding commercial paper during the first three months of Fiscal 2013. In addition, during the first quarter of Fiscal 2014, we repaid \$600 million in maturing senior notes. In comparison, we did not issue or repay any long-term debt during the first quarter of Fiscal 2013. These increases in cash used in financing activities were slightly mitigated by a decrease in share repurchases during the first three months of Fiscal 2014, compared to the same period in Fiscal 2013. During the first three months of Fiscal 2013, we repurchased approximately 17 million shares of common stock for \$300 million. In comparison, during the first three months of Fiscal 2014, we did not repurchase any shares of common stock. During the second quarter of Fiscal 2013, we announced that our Board of Directors adopted a dividend policy. In accordance with this policy, we paid a \$142 million dividend to our stockholders during the first quarter of Fiscal 2014.

Key Performance Metrics — Our cash conversion cycle for the first quarter of Fiscal 2014 contracted slightly from the first quarter of Fiscal 2013. Our business model allows us to maintain an efficient cash conversion cycle, which compares favorably with that of others in our industry.

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The following table presents the components of our cash conversion cycle for the three months ended May 3, 2013, and May 4, 2012:

	Three Months Ended	
	May 3, 2013	May 4, 2012
Days of sales outstanding ^(a)	45	43
Days of supply in inventory ^(b)	11	12
Days in accounts payable ^(c)	(87	) (87
Cash conversion cycle	(31	) (32

Days of sales outstanding (“DSO”) calculates the average collection period of our receivables. DSO is based on the ending net trade receivables and the most recent quarterly revenue for each period. DSO also includes the effect of product costs related to customer shipments not yet recognized as revenue that are classified in other current assets.

^(a) DSO is calculated by adding accounts receivable, net of allowance for doubtful accounts, and customer shipments in transit and dividing that sum by average net revenue per day for the current quarter (90 days). At May 3, 2013, and May 4, 2012, DSO and days of customer shipments not yet recognized were 41 and 4 days, and 39 and 4 days, respectively.

Days of supply in inventory (“DSI”) measures the average number of days from procurement to sale of our product.

^(b) DSI is based on ending inventory and most recent quarterly cost of sales for each period. DSI is calculated by dividing inventory by average cost of goods sold per day for the current quarter (90 days).

Days in accounts payable (“DPO”) calculates the average number of days our payables remain outstanding before

^(c) payment. DPO is based on ending accounts payable and most recent quarterly cost of sales for each period. DPO is calculated by dividing accounts payable by average cost of goods sold per day for the current quarter (90 days).

The one day contraction in our cash conversion cycle from the prior year quarter was driven by a two day increase in DSO, the effects of which were largely offset by a one day improvement in DSI. The two day increase in DSO was attributable to a shift in the mix of receivables towards customers with longer payment terms, while the one day improvement in DSI was driven by a reduction in strategic purchases from the first quarter of Fiscal 2013.

We defer the cost of revenue associated with customer shipments not yet recognized as revenue until these shipments are delivered. These deferred costs are included in our reported DSO because we believe this reporting results in a more accurate presentation of our DSO and cash conversion cycle. These deferred costs are recorded in other current assets in our Condensed Consolidated Statements of Financial Position and totaled \$626 million and \$522 million, at May 3, 2013, and May 4, 2012, respectively.

Capital Commitments

Share Repurchase Program — We have a share repurchase program that authorizes us to purchase shares of our common stock through a systematic program of open market purchases in order to increase stockholder value and manage dilution resulting from shares issued under our equity compensation plans. However, we do not currently have a policy that requires the repurchase of common stock to offset share-based compensation arrangements. We did not repurchase any shares of our common stock during the first three months of Fiscal 2014, as the merger agreement, discussed above, prohibits us from engaging in additional share repurchases. As of May 3, 2013, \$5.3 billion remained authorized for future share repurchases.

Dividend Program — On June 12, 2012, we announced that our Board of Directors adopted a dividend policy under which we have paid quarterly dividends of \$0.08 per share since the third quarter of Fiscal 2013. The cash dividend policy and the declaration and payment of each quarterly cash dividend will be subject to the Board's continuing determination that the policy and the declaration of dividends thereunder are in the best interest of our stockholders and are in compliance with applicable law. The Board of Directors retains the power to modify, suspend, or cancel our dividend policy in any manner and at any time that it may deem necessary or appropriate in the future. Under the merger agreement, we may not pay dividends with a quarterly rate greater than the rate of \$0.08 per share authorized under our current dividend policy.

Capital Expenditures — During the first quarters of Fiscal 2014 and 2013, we spent \$158 million and \$142 million, respectively, on property, plant, and equipment primarily in connection with our global expansion efforts and infrastructure investments made to support future growth. Product demand, product mix, and the increased use of contract manufacturers, as well as ongoing investments in operating and information technology infrastructure, influence the level and prioritization of our capital expenditures. Aggregate capital expenditures for Fiscal 2014, which are primarily related to infrastructure investments and strategic initiatives, are currently expected to total approximately \$500 million. These expenditures will be primarily funded from our cash flows from operating activities.

Purchase Obligations — We utilize several suppliers to manufacture sub-assemblies for our products. Our efficient supply chain management allows us to enter into flexible and mutually beneficial purchase arrangements with our suppliers in

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order to minimize inventory risk. Consistent with industry practice, we acquire raw materials or other goods and services, including product components, by issuing to suppliers authorizations to purchase based on our projected demand and manufacturing needs.

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RECENT ACCOUNTING PRONOUNCEMENTS

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

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ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a description of 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 1, 2013. Our exposure to market risks has not changed materially from the exposure described 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 under 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.

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, our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of May 3, 2013. Based on that evaluation, our management has concluded that our disclosure controls and procedures were effective as of May 3, 2013.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the first quarter of Fiscal 2014 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1 — LEGAL PROCEEDINGS

The information required by this item is incorporated herein by reference to the information set forth under the caption “Legal Matters” in Note 11 of the Notes to the Condensed Consolidated Financial Statements included in “Part I — Item 1 — Financial Statements.”

Additional information on our commitments and contingencies can be found in our Annual Report on Form 10-K for the fiscal year ended February 1, 2013.

ITEM 1A — RISK FACTORS

In addition to the other information set forth in this report, the factors discussed in “Part I — Item 1A — Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended February 1, 2013, could materially affect our business, financial condition, or operating results. The risks described in our Annual Report on Form 10-K and our subsequent SEC reports are not the only risks facing us. There are additional risks and uncertainties not currently known to us or that we currently deem to be immaterial that may also materially adversely affect our business, financial condition, or operating results.

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ITEM 6 — EXHIBITS

Exhibits — See Index to Exhibits below following the signature page to this report.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ YVONNE MCGILL

Yvonne McGill

Vice President, Corporate Finance and

Chief Accounting Officer

(On behalf of registrant and as principal accounting officer)

Date: June 12, 2013

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INDEX TO EXHIBITS

Exhibit No.	Description of Exhibit
2.1	Agreement and Plan of Merger, dated as of February 5, 2013, by and among Dell Inc. ("Dell"), Denali Holding Inc., Denali Intermediate Inc. and Denali Acquiror Inc. (incorporated by reference to Exhibit 2.1 of Dell's Current Report on Form 8-K filed February 6, 2013, as amended by Current Report on Form 8-K/A filed on February 15, 2013, Commission File No. 0-17017)
10.1	Voting and Support Agreement, dated as of February 5, 2013, by and among the stockholders listed on the signature pages thereto and Dell (incorporated by reference to Exhibit 10.1 of Dell's Current Report on Form 8-K filed February 6, 2013, as amended by Current Report on Form 8-K/A filed February 15, 2013, Commission File No. 0-17017)
10.2	Consultancy Agreement among Dell, Stephen F. Schuckebrook, and Schuckebrook Consulting, LLC (incorporated by reference to Exhibit 10.1 of Dell's Current Report on Form 8-K filed February 28, 2013, Commission File No. 0-17017)
10.3	Special Retention Program Overview (incorporated by reference to Exhibit 10.1 of Dell's Current Report on Form 8-K filed April 23, 2013, Commission File No. 0-17017)
10.4	Form of Special Retention Award Agreement (incorporated by reference to Exhibit 10.2 of Dell's Current Report on Form 8-K filed April 23, 2013, Commission File No. 0-17017)
10.5	Form of Amendment to Restricted Stock Agreement under the Dell Inc. Amended and Restated 2002 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.3 of Dell's Current Report on Form 8-K filed April 23, 2013, Commission File No. 0-17017)
10.6	Form of Amendment to Stock Unit Agreement under the Dell Inc. Amended and Restated 2002 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.4 of Dell's Current Report on Form 8-K filed April 23, 2013, Commission File No. 0-17017)
10.7	Form of Amendment to Stock Unit Agreement under the Dell Inc. 2012 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.5 of Dell's Current Report on Form 8-K filed April 23, 2013, Commission File No. 0-17017)
10.8	Form of Amendment to Performance Based Stock Unit Agreement under the Dell Inc. Amended and Restated 2002 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.6 of Dell's Current Report on Form 8-K filed April 23, 2013, Commission File No. 0-17017)
12.1†	Computation of ratio of earnings to fixed charges
31.1†	Certification of Michael S. Dell, Chairman 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

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31.2†			Certification of Brian T. Gladden, Senior Vice President 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 Brian T. Gladden, Senior Vice President 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
101	.INS†	—	XBRL Instance Document
101	.SCH†	—	XBRL Taxonomy Extension Schema Document
101	.CAL†	—	XBRL Taxonomy Extension Calculation Linkbase Document
101	.DEF†	—	XBRL Taxonomy Extension Definition Linkbase Document
101	.LAB†	—	XBRL Taxonomy Extension Label Linkbase Document
101	.PRE†	—	XBRL Taxonomy Extension Presentation Linkbase Document
†			Filed with this report.
††			Furnished with this report.