

DELL COMPUTER CORP
Form 10-Q
June 15, 2001
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the Quarterly Period Ended May 4, 2001

Commission File Number: 0-17017

Dell Computer Corporation

(Exact name of registrant as specified in its charter)

Delaware 74-2487834 (State of incorporation) (I.R.S. Employer ID No.)

807 Las Cimas Parkway, Building 2

Austin, Texas 78746

(Address of principal executive offices)

(512) 338-4400

(Telephone number)

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

As of the close of business on June 12, 2001, 2,603,596,157 shares of the registrant's common stock, par value \$.01 per share, were outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

DELL COMPUTER CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in millions, except per share amounts; unaudited)

| | May 4, 2001 | February 2, 2001 |
|---------------------------------------|------------------------|-----------------------------|
| | | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$4,886 | \$4,910 |
| Short-term investments | 381 | 528 |
| Accounts receivable, net | 2,689 | 2,895 |
| Inventories | 350 | 400 |
| Other | 856 | 758 |
| | | |
| | | |
| Total current assets | 9,162 | 9,491 |
| Property, plant and equipment, net | 924 | 996 |
| Investments | 2,667 | 2,418 |
| Other non-current assets | 427 | 530 |

Total assets
\$13,180 \$13,435

**LIABILITIES AND
STOCKHOLDERS
EQUITY**

Current liabilities:

Accounts payable
\$4,326 \$4,286
Accrued and other
2,056 2,257

Total current liabilities
6,382 6,543
Long-term debt
508 509
Other
785 761

Total liabilities
7,675 7,813

Stockholders' equity:

Preferred stock and capital in
excess of \$.01 par value; shares
authorized: 5; shares issued
and outstanding: none

Common stock and capital in
excess of \$.01 par value; shares
authorized: 7,000; shares
issued and outstanding: 2,603
and 2,601, respectively
4,978 4,795

Retained earnings
580 839

Other comprehensive income
34 62

Other
(87) (74)

Total stockholders' equity
5,505 5,622

Total liabilities and
stockholders' equity
\$13,180 \$13,435

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

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DELL COMPUTER CORPORATION

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

| | Three Months Ended | |
|--|-------------------------------|---------------------------|
| | May 4, 2001 | April 28, 2000 |
| Net revenue | \$ 8,028 | \$ 7,280 |
| Cost of revenue | | |
| 6,580 5,788 | | |
| | | |
| Gross margin | | |
| 1,448 1,492 | | |
| | | |
| Operating expenses: | | |
| Selling, general and administrative | | |
| 737 750 | | |
| Research, development and engineering | | |

123 117

Total operating expenses
860 867

Operating income
588 625
Investment and other
income, net
58 125

Income before income taxes
and cumulative effect of
change in accounting
principle
646 750
Provision for income taxes
184 225

Income before cumulative
effect of change in
accounting principle
462 525
Cumulative effect of change
in accounting principle, net
59

Net income
\$462 \$466

Earnings per commons
share:

Before cumulative effect of
change in accounting
principle:

Basic
\$0.18 \$0.20

Diluted
0.17 0.19

After cumulative effect of
change in accounting
principle:

Basic
\$0.18 \$0.18

Diluted
0.17 0.17

Weighted average shares
outstanding:

Basic
2,600 2,575

Diluted
2,757 2,737

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

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DELL COMPUTER CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions; unaudited)

| Three Months Ended | |
|---|-------------------|
| | |
| | May 4, 2001 |
| | April 28, 2000 |
| Cash flows from operating activities: | |
| Net income | |
| \$462 | \$466 |
| Adjustments to reconcile net income to net cash provided by operating activities: | |
| Depreciation and amortization | |
| 65 | 52 |
| Tax benefits of employee stock plans | |
| 163 | 79 |
| Gain on sale of investments | |
| (16) | (83) |
| Other | |
| 86 | 75 |
| Changes in: | |
| Operating working capital | |
| 28 | 55 |
| Non-current assets and liabilities | |
| 34 | 118 |
| | |
| Net cash provided by operating activities | |
| 822 | 762 |
| Cash flows from investing activities: | |
| Investments: | |
| Purchases | |
| (1,348) | (1,121) |
| Maturities and sales | |
| 1,276 | 524 |
| Capital expenditures | |
| (40) | (87) |
| | |
| Net cash used in investing activities | |
| (112) | (684) |

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Cash flows from financing
activities:

Purchase of common stock
(751) (500)

Issuance of common stock
under employee plans

56 66

Other

4

Net cash used in financing
activities

(695) (430)

Effect of exchange rate changes
on cash

(39) 2

Net decrease in cash

(24) (350)

Cash and cash equivalents at
beginning of period

4,910 3,809

Cash and cash equivalents at
end of period

\$4,886 \$3,459

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

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DELL COMPUTER CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Dell Computer Corporation (the Company) should be read in conjunction with the consolidated financial statements and notes thereto filed with the U.S. Securities and Exchange Commission in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2001. In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments of a normal recurring nature considered necessary to present fairly the financial position of the Company and its consolidated subsidiaries at May 4, 2001, and the results of their operations and their cash flows for the three month periods ended May 4, 2001 and April 28, 2000. Certain prior period amounts have been reclassified to conform to the current period presentation.

NOTE 2 ACCOUNTING CHANGES**SFAS 133**

Effective February 3, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended (SFAS 133), which establishes accounting and reporting standards for derivative instruments and hedging activities. SFAS 133 requires that the Company recognize all derivatives as either assets or liabilities in the Condensed Consolidated Statement of Financial Position and measure those instruments at fair value. The adoption of SFAS 133 did not have a material impact on the Company's results of operations or financial position.

The Company uses foreign currency forward contracts and purchased option contracts to reduce its exposure to currency fluctuations involving probable anticipated, but not firmly committed transactions. These contracts are designated as a cash flow hedge. As such, the effective portion of the gain or loss is reported as a component of other comprehensive income in stockholders' equity, and is reclassified into income as a component of revenue, cost of goods sold, or operating expenses in the same period during which the hedged transaction impacts earnings. Ineffective portions of the gain or loss are recognized currently as a component of investment and other income. The Company also uses foreign currency forward contracts to reduce its exposure to firmly committed transactions denominated in foreign currencies; however, these instruments are not designated as hedging instruments. Gains and losses on purchased options and forwards not designated as hedging instruments are reported in investment and other income currently and are offset by changes in the items being hedged. The Company has no other significant derivatives.

SAB 101

Effective January 29, 2000, the Company changed its accounting for revenue recognition in accordance with Securities and Exchange Commission's Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* (SAB 101). As a result of the Company's adoption of SAB 101, product revenue is recognized when both title and risk of loss transfer to the customer, provided that no significant obligations remain. The cumulative effect of the change on prior years' retained earnings resulted in a charge to income of \$59 million (net of income taxes of \$25 million) for the three months ended April 28, 2000.

NOTE 3 FISCAL 2001 SPECIAL CHARGE

During the fourth quarter of fiscal 2001, the Company's management undertook a program to reduce its workforce and to exit certain facilities during fiscal year 2002. Total charges recorded were \$105 million, which are expected to be fully paid by the end of fiscal 2002. The charges consisted of approximately \$50 million in employee termination benefits with the remainder relating to facilities closure costs. The employee separations, which occurred primarily in

the United States, affected 1,700 employees across a majority of the Company's business functions and job classes. As of May 4, 2001, substantially all of the affected employees had been separated from the Company and the liability related to termination benefits had been liquidated. The facilities included in the charge are expected to be exited during fiscal 2002, and substantially all the related costs are expected to be paid prior to the end of fiscal 2002.

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NOTE 4 INVENTORIES

| | May 4, 2001 | February 2, 2001 |
|---------------------------------------|----------------|---------------------|
| | (in millions) | |
| Inventories: | | |
| Production materials | \$126 | \$95 |
| Work-in-process and finished goods | 224 | 305 |
| | \$350 | \$400 |

NOTE 5 EARNINGS PER COMMON SHARE

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

| | | Three Months Ended | |
|--|--------------------------------------|--------------------|-------------------|
| | | May 4, 2001 | April 28, 2000 |
| Net income | | \$ 462 | \$ 466 |
| | Weighted average shares outstanding: | | |
| Weighted average shares outstanding | Basic | | |

| | |
|----------------------------------|-------|
| 2,600 | 2,575 |
| Employee stock options and other | |
| 157 | 162 |

| | |
|-------------------------------------|-------|
| Weighted average shares outstanding | |
| Diluted | |
| 2,757 | 2,737 |

Earnings per common share:

Before cumulative effect of change in accounting principle:

| | |
|--------|--------|
| Basic | |
| \$0.18 | \$0.20 |

| | |
|---------|--------|
| Diluted | |
| \$0.17 | \$0.19 |

After cumulative effect of change in accounting principle:

| | |
|--------|--------|
| Basic | |
| \$0.18 | \$0.18 |

| | |
|---------|--------|
| Diluted | |
| \$0.17 | \$0.17 |

NOTE 6 COMPREHENSIVE INCOME

The Company's comprehensive income is comprised of net income, foreign currency translation adjustments, unrealized gains and losses on derivative financial instruments, and unrealized gains and losses on marketable

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securities classified as available-for-sale. Comprehensive income for the three-month periods ended May 4, 2001 and April 28, 2000, was as follows:

| | Three Months Ended | |
|--|--------------------|-------------------|
| | May 4, 2001 | April 28, 2000 |
| | (in millions) | |
| Comprehensive income: | | |
| Net income | \$462 | \$466 |
| Foreign currency translations | 1 | 2 |
| Unrealized gains on derivative financial instruments | 48 | |
| Unrealized (losses) on marketable securities | (77) | (97) |
| | | |
| | | |
| Total comprehensive income | \$434 | \$371 |

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NOTE 7 SEGMENT INFORMATION

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

The accounting policies of the geographic segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2001. The Company allocates resources to and evaluates performance of its geographic segments based on balanced priorities of liquidity, profitability and growth. Transfers between geographic areas are recorded using internal transfer prices set by the Company.

The table below presents information about the Company's reportable segments for the three-month periods ended May 4, 2001 and April 28, 2000:

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Three Months Ended May 4, 2001

| | Americas | Europe | Asia Pacific -Japan | Elimination | Consolidated |
|---|---------------|--------|---------------------------|-------------|--------------|
| | | | | | |
| | (in millions) | | | | |
| Net revenue from unaffiliated customers | | | | | |
| \$5,445 | \$1,752 | \$831 | \$ | \$8,028 | |
| Transfers between geographic segments | | | | | |
| 8 | 1 | (9) | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| Total net revenue | | | | | |
| \$5,453 | \$1,753 | \$831 | \$(9) | \$8,028 | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| Operating income | | | | | |
| \$426 | \$131 | \$61 | \$ | \$618 | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| Corporate expenses | | | | | |
| (30) | | | | | |
| | | | | | |
| Total operating income | | | | | |
| \$588 | | | | | |
| | | | | | |
| Depreciation and amortization | | | | | |
| \$41 | \$13 | \$6 | \$ | \$60 | |

Corporate depreciation and amortization
5

Total depreciation and amortization
\$65

Identifiable assets
\$2,313 \$1,102 \$650 \$ 4,065

General corporate assets
9,115

Total assets
\$13,180

Three Months Ended April 28, 2000

| Americas | Europe | Japan | Elimination | Asia Pacific Consolidated |
|----------|--------|-------|-------------|---------------------------------|
| | | | | |

(in millions)

Net revenue from unaffiliated customers
\$5,123 \$1,573 \$584 \$ 7,280
Transfers between geographic segments
15 1 (16)

Total net revenue

\$5,138 \$1,574 \$584 \$(16) \$7,280

Operating income

\$564 \$83 \$47 \$ \$694

Corporate expenses
(69)

Total operating income
\$625

Depreciation and amortization

\$27 \$13 \$5 \$ \$45

Corporate depreciation and amortization
7

Total depreciation and amortization
\$52

Identifiable assets

\$2,592 \$1,146 \$432 \$ \$4,170

General corporate assets
7,853

Total assets
\$12,023

NOTE 8 SUBSEQUENT EVENT

In May 2001, the Company announced it expects to record a \$250 million to \$350 million special charge in the second quarter of fiscal 2002 to further align its cost structure with current economic and industry conditions. These actions are primarily related to an additional 3,000 to 4,000 job reductions and the consolidation of related facilities.

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

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

All percentage amounts and ratios were calculated using the underlying data in thousands. Operating results for the three month period ended May 4, 2001, are not necessarily indicative of the results that may be expected for the full fiscal year.

Results of Operations

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

| Percentage of Consolidated Net Revenue | |
|--|-----------|
| Three Months Ended | |
| May 4, | April 28, |

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| | 2001 | 2000 |
|--|------|------|
| Net revenue: | | |
| Americas | | |
| 67.8% 70.4% | | |
| Europe | | |
| 21.8 21.6 | | |
| Asia Pacific-Japan | | |
| 10.4 8.0 | | |
| | | |
| | | |
| Consolidated net revenue | | |
| 100.0 100.0 | | |
| Cost of revenue | | |
| 82.0 79.5 | | |
| | | |
| | | |
| Gross margin | | |
| 18.0 20.5 | | |
| Operating expenses: | | |
| Selling, general and administrative | | |
| 9.2 10.3 | | |
| Research, development and engineering | | |
| 1.5 1.6 | | |
| | | |
| | | |
| Total operating expenses | | |
| 10.7 11.9 | | |
| | | |
| | | |
| Operating income | | |
| 7.3 8.6 | | |
| Investment and other income, net | | |
| 0.7 1.7 | | |
| | | |
| | | |
| Income before income taxes and cumulative effect of change in accounting principle | | |
| 8.0 10.3 | | |
| Provision for income taxes | | |
| 2.2 3.1 | | |

Income before cumulative
effect of change in accounting
principle

5.8 7.2

Cumulative effect of change
in accounting principle, net
0.8

Net income

5.8% 6.4%

Net Revenue

Consolidated net revenue increased 10% in the first quarter of fiscal 2002 compared to the first quarter of fiscal 2001, and decreased 7% from the fourth quarter of fiscal 2001. The year-over-year increase in consolidated net revenue was the result of growth in net unit shipments across all regions and product categories. Although net revenue was down 7% sequentially because of weaker industry demand in the United States, the Company continued to successfully execute its strategy for profitable share growth.

Net unit shipments grew 27% year-over-year, while decreasing 6% sequentially. The Company continues to profitably grow market share in all regions and product categories, and during the quarter the Company expanded its volumes at more than six times the estimated industry rate and became the world's leading supplier of computer systems. Unit shipments of the Company's enterprise systems, which include servers, storage products and workstations grew 43% over the same period a year ago and 2% sequentially. For the first time the Company ranked No. 1 in the United States for server shipments. Additionally, notebook shipments increased 37% compared to the prior year period and 5% sequentially, and during the quarter the Company

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moved forward one spot becoming the No. 2 worldwide supplier. Desktop shipments increased 24% year-over-year and decreased 10% sequentially.

In the Americas region, net revenue grew 6% in the first quarter of fiscal 2002 compared to the same quarter of fiscal 2001, and declined 11% sequentially. Results for the Americas region were affected primarily by the U.S. market. The Company grew its U.S. market share in the quarter by 7% to 24%. Net revenue in the Europe region increased 11% during the first quarter of fiscal 2002 compared to the same period of fiscal 2001, while declining 5% from the fourth quarter of fiscal 2001. Year-over-year performance in Europe was driven by strong growth in unit shipments as the Company moved into the No. 2 share position in the region during the quarter. In Asia Pacific-Japan, net revenue increased 42% year-over-year and 12% sequentially. Asia Pacific-Japan growth continued to be strong as overall unit shipments grew approximately four times the estimated industry growth rate for the region.

Average revenue per unit sold in the first quarter of fiscal year 2002 decreased 13% compared to the same period a year ago and 2% sequentially. Average revenue per unit sold decreased primarily due to price reductions resulting from component cost declines and the Company's strategy of leveraging its direct-to-customer model to drive profitable market share growth. Management expects that the current pricing environment will likely continue for the foreseeable future as the Company and its competitors experience soft demand and continued uncertainty in the overall economy.

Gross Margin

As a percentage of consolidated net revenue, gross margin decreased from 20.5% in the first quarter of fiscal 2001 to 18.0% in the first quarter of fiscal 2002, while staying flat sequentially. Most of the year-over-year decrease occurred as a result of intense price competition and the Company's strategy to drive profitable market share growth. Based on the industry, economic and other factors discussed above, the Company currently expects that this gross margin environment will likely continue for the foreseeable future. Management believes that the strength of the Company's direct-to-customer business model, as well as its strong liquidity position, result in the Company's being better suited than its competitors to profitably grow market share in the current business climate.

Operating Expenses

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

| | Three Months Ended | |
|---------------------------------------|-----------------------|-------------------|
| | May 4, 2001 | April 28, 2000 |
| | (dollars in millions) | |
| Operating Expenses: | | |
| Selling, general and administrative | | |
| \$737 \$750 | | |
| Percentage of net revenue | | |
| 9.2% 10.3% | | |
| Research, development and engineering | | |
| \$123 \$117 | | |
| Percentage of net revenue | | |
| 1.5% 1.6% | | |
| Total operating expenses | | |
| \$860 \$867 | | |
| Percentage of net revenue | | |
| 10.7% 11.9% | | |

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

Management believes that the Company will continue to improve efficiencies and control selling, general and administrative expenses relative to revenue growth to continue to profitably grow market share. Consequently, during

the fourth quarter of fiscal 2001, the Company undertook a program to reduce its workforce and to exit certain facilities during fiscal year 2002. Total charges recorded were \$105 million. The charges consisted of approximately \$50 million in employee termination benefits with the remainder relating to facilities closure costs. The employee separation, which occurred primarily in the United States, affected 1,700 employees

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across a majority of the Company's business functions and job classes. As of May 4, 2001, substantially all of the employees had been separated from the Company and the liability related to termination benefits had been liquidated. The facilities included in the charge are expected to be exited during fiscal 2002, and substantially all the related costs are expected to be paid prior to the end of fiscal 2002. These actions are expected to result in annual savings of approximately \$100 million. These savings, however, are expected to be reinvested via pricing, selling incentives, and research and development activities to support continued unit and revenue growth in the Company's enterprise systems. In May 2001, the Company announced it expects to record a \$250 million to \$350 million special charge in the second quarter of fiscal 2002 to further align its cost structure with current economic and industry conditions. These actions are primarily related to an additional 3,000 to 4,000 job reductions and the consolidation of related facilities. The Company will continue to manage its operating expenses relative to expected revenue growth, and will undertake additional cost-cutting actions if necessary to enable it to continue to profitably grow market share.

The Company continues to invest in research, development and engineering activities to develop and introduce new products and to support its continued goal of improving and developing efficient procurement, manufacturing and distribution processes. As a result, research, development and engineering expenses have increased in absolute dollars due to increased staffing levels and product development costs, although, as a percent of revenue, these costs have declined slightly. The Company expects to continue to increase its absolute dollar amount of research, development and engineering spending with an increasing emphasis on enterprise products, including servers and storage.

Investment and Other Income, Net

Investment and other income decreased by \$67 million during the first quarter of fiscal 2002, as compared to the first quarter of fiscal 2001. The decrease was primarily a result of lower net gains from the Company's equity securities portfolio.

Income Taxes

The Company's effective tax rate was 28.5% for the first quarter of fiscal 2002 compared to 30% for the same period in fiscal 2001. The differences in the effective tax rates result primarily from changes in the geographical distribution of taxable income. The Company's effective tax rate is lower than the U.S. federal statutory rate of 35%, principally because of the Company's geographical distribution of taxable income.

Liquidity and Capital Resources

The following table presents selected financial statistics and information:

| Three Months Ended | |
|--------------------|---------------------|
| May 4, 2001 | February 2, 2001 |

(dollars in millions)

| | |
|--------------------------------------|---------|
| Cash and investments | |
| \$7,934 | \$7,856 |
| Working capital | |
| \$2,780 | \$2,948 |
| Days of sales in accounts receivable | |
| 30 | 32 |
| Days of supply in inventory | |
| 5 | 5 |
| Days in accounts payable | |
| 59 | 58 |

| | |
|-----------------------|------|
| Cash conversion cycle | |
| (24) | (21) |

At May 4, 2001, the Company had approximately \$7.9 billion of cash and investments. Of that amount, equity investments totaled approximately \$757 million with cost approximating fair value. The principal source of the Company's cash is its operations. During the first three months of fiscal 2002, the Company generated \$822 million in cash flows from operating activities, which resulted primarily from the Company's net income, income tax benefits that resulted from the exercise of employee stock options, and efficient asset management evidenced by a cash conversion cycle of negative 24 days (an improvement of 3 days from the beginning of the fiscal year).

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The Company utilized \$40 million in cash during the first three months of fiscal 2002 to improve and equip its manufacturing and office facilities. For fiscal year 2002 cash flows for similar capital expenditures are currently expected to be in the range of \$300 to \$350 million.

The Company maintains master lease facilities providing the capacity to fund up to \$1.2 billion. The combined facilities provide for the ability of the Company to lease certain real property, buildings and equipment to be constructed or acquired. At May 4, 2001, \$588 million of the combined facilities had been utilized.

The Company has a share repurchase program that it uses primarily to manage the dilution resulting from shares issued under the Company's employee stock plans. As of the end of the first quarter of fiscal 2002, the Company had cumulatively repurchased 887 million shares over a five-year period out of its authorized 1 billion share repurchase program, for an aggregate cost of \$7.6 billion. During the first quarter of fiscal 2002, the Company repurchased 16 million shares of common stock for an aggregate cost of \$751 million. The Company utilizes equity instrument contracts to facilitate its repurchase of common stock. At May 4, 2001, the Company held equity options and forwards that allow for the purchase of 80 million shares of common stock at an average price of \$50 per share. At May 4, 2001, the Company also had outstanding put obligations covering 96 million shares with an average exercise price of \$44 per share. The equity instruments are exercisable only at the date of expiration and expire at various dates through the first quarter of fiscal 2004. The outstanding put obligations at May 4, 2001 permitted net share settlement at the

Company's option and, therefore, did not result in a put obligation liability on the accompanying condensed consolidated statement of financial position.

Management believes that the Company's cash provided from operations will continue to be sufficient to support its operations and capital requirements. The Company anticipates that it will continue to utilize its strong liquidity and cash flows to develop and grow the marketplace presence of its enterprise systems, repurchase its common stock, make strategic equity investments, and invest in systems and processes.

Factors Affecting the Company's Business and Prospects

There are numerous factors that affect the Company's business and the results of its operations. These factors include general economic and business conditions; the level of demand for the Company's products and services; the level and intensity of competition in the technology industry and the pricing pressures that have resulted; the ability of the Company to timely and effectively manage periodic product transitions, as well as component availability and cost; the ability of the Company to develop new products based on new or evolving technology and the market's acceptance of those products; the ability of the Company to manage its inventory levels to minimize excess inventory, declining inventory values and obsolescence; the product, customer and geographic sales mix of any particular period; the Company's ability to recover its investments in venture capital activities; and the Company's ability to effectively manage its operating costs. For a discussion of these and other factors affecting the Company's business and prospects, see Item 1 Business Factors Affecting the Company's Business and Prospects in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2001.

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

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

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PART II OTHER INFORMATION

ITEM 1. *Legal Proceedings*

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

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

- (a) Exhibits.

None.

(b) Reports on Form 8-K.

None.

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SIGNATURE

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

DELL COMPUTER CORPORATION

June 15, 2001

/s/ JAMES M. SCHNEIDER

James M. Schneider
*Senior Vice President and Chief
Financial Officer*

(On behalf of the registrant and as principal accounting and financial officer)

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