

DELL COMPUTER CORP
Form 10-Q
December 17, 2001

Table of Contents

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 November 2, 2001

Commission File Number: 0-17017

Dell Computer Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

74-2487834
(I.R.S. Employer ID No.)

807 Las Cimas Parkway, Building 2

Austin, Texas 78746
(Address of principal executive offices)

(512) 338-4400

(Telephone number)

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

As of the close of business on November 30, 2001, 2,607 million shares of the registrant's common stock, par value \$.01 per share, were outstanding.

TABLE OF CONTENTS

PART I -- FINANCIAL INFORMATION

ITEM 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

PART II -- OTHER INFORMATION

ITEM 1. Legal Proceedings

ITEM 6. Exhibits and Reports on Form 8-K

SIGNATURE

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. Financial Statements****DELL COMPUTER CORPORATION****CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
(in millions, except per share amounts; unaudited)

| | November 2, 2001 | February 2, 2001 |
|--|---------------------|---------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,442 | \$ 4,910 |
| Short-term investments | 309 | 528 |
| Accounts receivable, net | 2,692 | 2,895 |
| Inventories | 269 | 400 |
| Other | 918 | 758 |
| | <hr/> | <hr/> |
| Total current assets | 7,630 | 9,491 |
| Property, plant and equipment, net | 806 | 996 |
| Investments | 4,267 | 2,418 |
| Other non-current assets | 514 | 530 |
| | <hr/> | <hr/> |
| Total assets | \$13,217 | \$13,435 |
| | <hr/> | <hr/> |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 4,771 | \$ 4,286 |
| Accrued and other | 2,376 | 2,257 |
| | <hr/> | <hr/> |
| Total current liabilities | 7,147 | 6,543 |
| Long-term debt | 518 | 509 |
| Other | 770 | 761 |
| | <hr/> | <hr/> |
| Total liabilities | 8,435 | 7,813 |
| | <hr/> | <hr/> |
| Stockholders' equity: | | |
| Preferred stock and capital in excess of \$0.01 par value; shares authorized: 5; shares issued and outstanding: none | | |
| Common stock and capital in excess of \$0.01 par value; shares authorized: 7,000; shares issued: 2,642 and 2,601, respectively | 5,445 | 4,795 |
| Retained earnings | 908 | 839 |
| Treasury stock, at cost; 35 shares and no shares, respectively | (1,509) | |
| Other comprehensive income | 16 | 62 |
| Other | (78) | (74) |
| | <hr/> | <hr/> |
| Total stockholders' equity | 4,782 | 5,622 |
| | <hr/> | <hr/> |
| Total liabilities and stockholders' equity | \$13,217 | \$13,435 |



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

Table of Contents**DELL COMPUTER CORPORATION****CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**
(in millions, except per share amounts; unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------|---------------------|---------------------|---------------------|
| | November 2, 2001 | October 27, 2000 | November 2, 2001 | October 27, 2000 |
| Net revenue | \$ 7,468 | \$ 8,264 | \$ 23,107 | \$ 23,214 |
| Cost of revenue | 6,155 | 6,506 | 19,016 | 18,330 |
| Gross margin | 1,313 | 1,758 | 4,091 | 4,884 |
| Operating expenses: | | | | |
| Selling, general and administrative | 662 | 814 | 2,071 | 2,338 |
| Research, development and engineering | 107 | 126 | 343 | 367 |
| Special charge | | | 482 | |
| Total operating expenses | 769 | 940 | 2,896 | 2,705 |
| Operating income | 544 | 818 | 1,195 | 2,179 |
| Investment and other income (loss), net | 51 | 145 | (98) | 395 |
| Income before income taxes and cumulative effect of change in accounting principle | 595 | 963 | 1,097 | 2,574 |
| Income tax provision | 166 | 289 | 307 | 772 |
| Income before cumulative effect of change in accounting principle | 429 | 674 | 790 | 1,802 |
| Cumulative effect of change in accounting principle, net | | | | 59 |
| Net income | \$ 429 | \$ 674 | \$ 790 | \$ 1,743 |
| Earnings per common share: | | | | |
| Before cumulative effect of change in accounting principle: | | | | |
| Basic | \$ 0.16 | \$ 0.26 | \$ 0.30 | \$ 0.70 |
| Diluted | \$ 0.16 | \$ 0.25 | \$ 0.29 | \$ 0.66 |
| After cumulative effect of change in accounting principle: | | | | |
| Basic | \$ 0.16 | \$ 0.26 | \$ 0.30 | \$ 0.68 |
| Diluted | \$ 0.16 | \$ 0.25 | \$ 0.29 | \$ 0.64 |
| Weighted average shares outstanding: | | | | |
| Basic | 2,611 | 2,586 | 2,604 | 2,581 |
| Diluted | 2,728 | 2,739 | 2,738 | 2,734 |

Edgar Filing: DELL COMPUTER CORP - Form 10-Q

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

Table of Contents

DELL COMPUTER CORPORATION

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

| | Nine Months Ended | |
|---|---------------------|---------------------|
| | November 2, 2001 | October 27, 2000 |
| Cash flows from operating activities: | | |
| Net income | \$ 790 | \$ 1,743 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 185 | 172 |
| Tax benefits of employee stock plans | 306 | 739 |
| Special charge | 742 | |
| (Gain) loss on sale of investments | 1 | (244) |
| Other | 130 | 283 |
| Changes in: | | |
| Operating working capital | 599 | 105 |
| Non-current assets and liabilities | 11 | 195 |
| | <u>2,764</u> | <u>2,993</u> |
| Cash flows from investing activities: | | |
| Investments: | | |
| Purchases | (4,513) | (2,242) |
| Maturities and sales | 2,608 | 1,449 |
| Capital expenditures | (209) | (375) |
| | <u>(2,114)</u> | <u>(1,168)</u> |
| Cash flows from financing activities: | | |
| Purchase of common stock | (2,259) | (1,845) |
| Issuance of common stock under employee plans and other | 214 | 239 |
| | <u>(2,045)</u> | <u>(1,606)</u> |
| Effect of exchange rate changes on cash | (73) | (52) |
| Net increase (decrease) in cash | (1,468) | 167 |
| Cash and cash equivalents at beginning of period | 4,910 | 3,809 |
| Cash and cash equivalents at end of period | <u>\$ 3,442</u> | <u>\$ 3,976</u> |

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

Table of Contents**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 November 2, 2001 and February 2, 2001, and the results of their operations and their cash flows for the interim periods ended November 2, 2001 and October 27, 2000. Certain prior period amounts have been reclassified to conform to the current period presentation.

Effective with the beginning of the second quarter of fiscal 2002, the Company began holding repurchased shares of its common stock as treasury stock. Historically, the Company retired all such repurchased shares. As of November 2, 2001, the Company held 35 million shares in treasury stock at an aggregate cost of \$1.5 billion.

NOTE 2 SPECIAL CHARGES

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

| | <u>Total Charge</u> | <u>Paid</u> | <u>Non- Cash Charges</u> | <u>Liability at November 2, 2001</u> |
|--|-------------------------|-------------|----------------------------------|--|
| Employee separations | \$ 134 | \$ (92) | \$ | \$ 42 |
| Facility consolidations | 169 | (30) | (79) | 60 |
| Other asset impairments and exit costs | 179 | (3) | (152) | 24 |
| | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Total | \$482 | \$(125) | \$(231) | \$126 |
| | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |

The Company eliminated approximately 4,000 employee positions worldwide from various business functions and job classes. Other asset impairments and exit costs included \$75 million to write down goodwill and intellectual property associated with the acquisition of ConvergeNet Technologies, Inc. to current fair value.

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

During the fourth quarter of fiscal 2001, the Company undertook a program to reduce its workforce and to exit certain facilities during fiscal year 2002. Total charges recorded were \$105 million. As of November 2, 2001, \$30 million remains in accrued and other liabilities related to this charge, substantially all of which relates to costs for abandonment of facilities.

NOTE 3 INVENTORIES

| <u>November 2, 2001</u> | <u>February 2, 2001</u> |
|-----------------------------|-----------------------------|
|-----------------------------|-----------------------------|

Edgar Filing: DELL COMPUTER CORP - Form 10-Q

| | (in millions) | |
|------------------------------------|-------------------|-------------------|
| Inventories: | | |
| Production materials | \$ 133 | \$ 95 |
| Work-in-process and finished goods | 136 | 305 |
| | <u> </u> | <u> </u> |
| | \$ 269 | \$ 400 |
| | <u> </u> | <u> </u> |

Table of Contents**NOTE 4 EARNINGS PER COMMON SHARE**

Basic earnings per share are based on the weighted effect of all common shares issued and outstanding and are calculated by dividing net income by the weighted average shares outstanding during the period. Diluted earnings per share is calculated by dividing net income by the weighted average number of common shares used in the basic earnings per share calculation plus the number of common shares that would be issued assuming conversion of all potentially dilutive common shares outstanding. The following table sets forth the computation of basic and diluted earnings per share (in millions, except per share amounts):

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------|---------------------|---------------------|---------------------|
| | November 2, 2001 | October 27, 2000 | November 2, 2001 | October 27, 2000 |
| Net income | \$ 429 | \$ 674 | \$ 790 | \$ 1,743 |
| Weighted average shares outstanding: | | | | |
| Basic | 2,611 | 2,586 | 2,604 | 2,581 |
| Employee stock options and other | 117 | 153 | 134 | 153 |
| Diluted | 2,728 | 2,739 | 2,738 | 2,734 |
| Earnings per common share: | | | | |
| Before cumulative effect of change in accounting principle: | | | | |
| Basic | \$ 0.16 | \$ 0.26 | \$ 0.30 | \$ 0.70 |
| Diluted | \$ 0.16 | \$ 0.25 | \$ 0.29 | \$ 0.66 |
| After cumulative effect of change in accounting principle: | | | | |
| Basic | \$ 0.16 | \$ 0.26 | \$ 0.30 | \$ 0.68 |
| Diluted | \$ 0.16 | \$ 0.25 | \$ 0.29 | \$ 0.64 |

NOTE 5 COMPREHENSIVE INCOME

The Company's comprehensive income is comprised of net income, foreign currency translation adjustments, unrealized gains and losses on derivative financial instruments, and unrealized gains and losses on marketable securities classified as available-for-sale. Comprehensive income for the three- and nine-month periods ended November 2, 2001 and October 27, 2000, was as follows (in millions):

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------|---------------------|---------------------|---------------------|
| | November 2, 2001 | October 27, 2000 | November 2, 2001 | October 27, 2000 |
| Comprehensive income: | | | | |
| Net income | \$ 429 | \$ 674 | \$ 790 | \$ 1,743 |
| Foreign currency translation | | 7 | 1 | 7 |
| Unrealized gains (losses) on derivative financial instruments | (6) | | 3 | |
| Unrealized gains (losses) on investments | 24 | (482) | (50) | (207) |

Edgar Filing: DELL COMPUTER CORP - Form 10-Q

| | | | | |
|----------------------------|-------------------|-------------------|-------------------|-------------------|
| Total comprehensive income | \$447 | \$ 199 | \$744 | \$1,543 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Table of Contents**NOTE 6 SEGMENT INFORMATION**

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

The accounting policies of the geographic segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2001. The Company allocates resources to and evaluates performance of its geographic segments based on balanced priorities of liquidity, profitability and growth. Inter-segment transfers are excluded and corporate expenses are included in the Company's measure of segment operating income for management reporting purposes.

The table below presents information about the Company's reportable segments for the three- and nine-month periods ended November 2, 2001 and October 27, 2000:

| | Three Months Ended | | Nine Months Ended | |
|------------------------|---------------------|---------------------|---------------------|---------------------|
| | November 2, 2001 | October 27, 2000 | November 2, 2001 | October 27, 2000 |
| Net revenue | | | | |
| Americas | \$5,251 | \$6,064 | \$16,098 | \$16,773 |
| Europe | 1,509 | 1,537 | 4,744 | 4,564 |
| Asia Pacific-Japan | 708 | 663 | 2,265 | 1,877 |
| Total net revenue | \$7,468 | \$8,264 | \$23,107 | \$23,214 |
| Operating income | | | | |
| Americas | \$ 431 | \$ 698 | \$ 1,265 | \$ 1,814 |
| Europe | 83 | 81 | 292 | 238 |
| Asia Pacific-Japan | 30 | 39 | 120 | 127 |
| Special charge | | | (482) | |
| Total operating income | \$ 544 | \$ 818 | \$ 1,195 | \$ 2,179 |

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

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

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

Results of Operations

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

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

| | Percentage of Consolidated Net Revenue | | | |
|--|--|---------------------|---------------------|---------------------|
| | Three Months Ended | | Nine Months Ended | |
| | November 2, 2001 | October 27, 2000 | November 2, 2001 | October 27, 2000 |
| Net revenue: | | | | |
| Americas | 70.3% | 73.4% | 69.7% | 72.3% |
| Europe | 20.2 | 18.6 | 20.5 | 19.6 |
| Asia Pacific-Japan | 9.5 | 8.0 | 9.8 | 8.1 |
| | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |
| Gross margin | 17.6 | 21.3 | 17.7 | 21.0 |
| Selling, general and administrative | 8.9 | 9.9 | 9.0 | 10.1 |
| Research, development and engineering | 1.4 | 1.5 | 1.4 | 1.6 |
| Special charge | | | 2.1 | |
| | <u>10.3</u> | <u>11.4</u> | <u>12.5</u> | <u>11.7</u> |
| Operating income | 7.3 | 9.9 | 5.2 | 9.3 |
| Investment and other income (loss), net | 0.7 | 1.8 | (0.4) | 1.8 |
| | <u>8.0</u> | <u>11.7</u> | <u>4.8</u> | <u>11.1</u> |
| Income before income taxes and cumulative effect of change in accounting principle | 8.0 | 11.7 | 4.8 | 11.1 |
| Net income | <u>5.7%</u> | <u>8.2%</u> | <u>3.4%</u> | <u>7.5%</u> |

Net Revenue

For the third quarter and first nine months of fiscal 2002, consolidated net revenue decreased 10% and remained flat, respectively, over the comparable periods in fiscal 2001 and decreased 2% sequentially. Overall net revenue has been adversely impacted as growth in net unit shipments has been offset by declines in average per-unit revenues.

Net unit shipments for the third quarter grew 8% year over year and 2% sequentially as the Company continues to profitably grow market share in all regions and product categories. Net unit shipments of the

Table of Contents

Company's enterprise systems, which include servers and workstations, grew 20% over the same period a year ago and 3% sequentially. During the quarter the Company extended its lead as the world's No. 1 supplier of notebook computer systems, as shipments increased 18% compared to the prior year period and increased 4% sequentially. Desktop shipments increased 4% year over year and increased 2% sequentially.

In the Americas region, net revenue declined 13% in the third quarter of fiscal 2002 compared to the same quarter of fiscal 2001, and declined 3% sequentially. Net revenue in the Europe region decreased 2% during the third quarter of fiscal 2002 compared to the same period of fiscal 2001, while increasing 2% sequentially. In Asia Pacific-Japan, net revenue increased 7% year over year and declined 2% sequentially. Softness in the global economy continues to impact overall demand.

Average revenue per unit sold in the third quarter of fiscal 2002 decreased 16% compared to the same period a year ago and 4% sequentially. This decrease was primarily due to price reductions resulting from component cost declines and the Company's strategy of leveraging its direct-to-customer model to drive profitable market share growth. Management expects that the current pricing environment will likely continue in the near future as the Company and its competitors experience soft demand and continued uncertainty in the overall economy.

Gross Margin

As a percentage of consolidated net revenue, gross margin decreased from 21.3% in the third quarter of fiscal 2001 to 17.6% in the same period of fiscal 2002, while improving 0.1% sequentially. On a year-to-date basis, gross margin decreased from 21.0% during the first nine months of fiscal 2001 to 17.7% during the same period of fiscal 2002. The year-over-year decrease occurred primarily as a result of intense price competition and the continued execution of 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 continue to be challenging, but the Company's intent is to focus on improving operating margins as the economy improves. Management believes that the strength of the Company's direct-to-customer business model, as well as its strong liquidity position, result in the Company being better positioned than its competitors to profitably grow market share in the current business climate.

Operating Expenses

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

| | Three Months Ended | | Nine Months Ended | |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|
| | November 2, 2001 | October 27, 2000 | November 2, 2001 | October 27, 2000 |
| Operating Expenses: | | | | |
| Selling, general and administrative | \$ 662 | \$ 814 | \$ 2,071 | \$ 2,338 |
| Percentage of net revenue | 8.9% | 9.9% | 9.0% | 10.1% |
| Research, development and engineering | \$ 107 | \$ 126 | \$ 343 | \$ 367 |
| Percentage of net revenue | 1.4% | 1.5% | 1.4% | 1.6% |
| Special charge | \$ | | \$ 482 | |
| Percentage of net revenue | | | 2.1% | |
| Total operating expenses | \$ 769 | \$ 940 | \$ 2,896 | \$ 2,705 |
| Percentage of net revenue | 10.3% | 11.4% | 12.5% | 11.7% |

Selling, general and administrative expenses, excluding the special charge, decreased in absolute dollar amounts and as a percentage of revenue for the first nine months and the third quarter of fiscal 2002 from the same periods of fiscal 2001. As revenue growth expectations were trimmed during fiscal 2001 and into 2002, management took steps to manage expenses relative to actual growth rates. As a result, selling, general and administrative expenses as a percentage of net revenues declined to 8.9% of revenue in the third quarter, down from 9.9% in the same period a year ago.

Management believes that the Company will continue to improve efficiencies and control selling, general and administrative expenses relative to revenue growth to continue to optimize overall profitability and grow market share. During the second quarter of fiscal 2002, the Company undertook a program to further reduce its workforce and to exit certain activities to align its cost structure with current economic and industry

Table of Contents

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

In addition to the \$482 million charge, the Company also recorded an impairment charge of \$260 million during the second quarter reflecting other than temporary declines in fair value of certain investments. This charge is reflected in investment and other income (loss), net, for the nine months ended November 2, 2001.

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

The Company continues to invest in research, development and engineering activities to develop and introduce new products and to support its continued goal of improving and developing efficient procurement, manufacturing and distribution processes. For the three- and nine-months ended November 2, 2001, research, development and engineering expenses decreased in absolute dollars and as a percent of revenue as compared to the prior year periods as the Company managed its spending in light of current industry conditions. The Company expects to continue to invest in research, development and engineering activity, with an increasing emphasis on enterprise products, including servers and storage.

Investment and Other Income (Loss), net

Investment and other income (loss), net primarily includes interest income and expense, gains (losses) from the sale of investments, impairment charges for other than temporary declines in fair value of investments, and foreign exchange transaction gains and losses. For the three- and nine-month periods ended November 2, 2001, investment and other income (loss), net, was \$51 million and (\$98) million, respectively. The year-to-date amount includes the previously mentioned impairment charges of \$260 million to write down the carrying value of certain investments. Compared to the prior year, investment and other income (loss), net, for the three- and nine-month periods (excluding the \$260 million charge) has decreased primarily due to lower net gains from the Company's private and public company equity security portfolio.

Income Taxes

The Company's effective tax rate was 28% for the three- and nine-month periods ended November 2, 2001, as compared to 30% for the same periods of 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 (dollars in millions):

| | November 2, 2001 | February 2, 2001 |
|--------------------------------------|---------------------|---------------------|
| | _____ | _____ |
| Cash and investments | \$8,018 | \$7,856 |
| Working capital | \$ 483 | \$2,948 |
| Days of sales in accounts receivable | 32 | 32 |
| Days of supply in inventory | 4 | 5 |
| Days in accounts payable | 70 | 58 |
| | _____ | _____ |
| Cash conversion cycle | (34) | (21) |
| | _____ | _____ |

Edgar Filing: DELL COMPUTER CORP - Form 10-Q

At November 2, 2001, the Company had approximately \$8.0 billion of cash and investments. Of that amount, investments in equity securities totaled approximately \$281 million with cost approximating fair value. During the third quarter the Company invested relatively more of its total cash and investments in long-term

Table of Contents

investment grade securities in order to yield higher interest income. The principal source of the Company's cash is from its operations. During the first nine months of fiscal 2002, the Company generated \$2.8 billion in cash flows from operating activities, resulting primarily from the Company's net income, efficient asset management evidenced by a Company record cash conversion cycle of negative 34 days (an improvement of 13 days from the beginning of the fiscal year), and income tax benefits that resulted from the exercise of employee stock options. As of November 2, 2001, working capital had declined from the previous fiscal year end due to the aforementioned additional long-term investments and the improvement in the Company's cash conversion cycle. Capital expenditures during the first nine months of fiscal 2002 were \$209 million. For all of fiscal year 2002, similar capital expenditures are currently expected to be approximately \$300 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 November 2, 2001, \$636 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 third quarter of fiscal 2002, the Company had cumulatively repurchased 923 million shares out of its authorized one billion share repurchase program, for an aggregate cost of \$9.1 billion. During the third quarter of fiscal 2002, the Company repurchased 18 million shares of common stock for an aggregate cost of \$769 million. The Company utilizes equity instrument contracts to facilitate its repurchase of common stock. At November 2, 2001, the Company held equity options and forwards that allow for the purchase of 40 million shares of common stock at an average price of \$53 per share. At November 2, 2001, the Company also had outstanding put obligations covering 66 million shares with an average exercise price of \$44 per share. The equity instruments are exercisable only at the date of expiration and expire at various dates through the first quarter of fiscal 2004. The outstanding put obligations and forwards at November 2, 2001 permitted net share settlement at the Company's option and, therefore, did not result in a put obligation liability on the accompanying Condensed Consolidated Statement of Financial Position.

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

Factors Affecting the Company's Business and Prospects

There are numerous factors that affect the Company's business and the results of its operations. These factors include general economic and business conditions; the level of demand for the Company's products and services; the level and intensity of competition in the technology industry and the pricing pressures that have resulted; the ability of the Company to timely and effectively manage periodic product transitions, as well as component availability and cost; the ability of the Company to develop new products based on new or evolving technology and the market's acceptance of those products; the ability of the Company to manage its inventory levels to minimize excess inventory, declining inventory values and obsolescence; the product, customer and geographic sales mix of any particular period; the Company's ability to recover its investments in venture capital activities; the Company's ability to effectively manage its operating costs; and the effect of armed hostilities or other conflict on the economy generally, on the level of demand for the Company's products and services and on the Company's ability to manage its supply and delivery logistics in such an environment. 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.

Table of Contents

PART II OTHER INFORMATION

ITEM 1. *Legal Proceedings*

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

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

(a) Exhibits.

None.

(b) Reports on Form 8-K.

None.

Table of Contents

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

December 17, 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)

12