MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. And welcome to the Dell Inc. fourth quarter fiscal year 2005 conference call. I would like to inform all participants this call is being recorded at the request of Dell. This broadcast is the copyrighted property of Dell Inc. Any rebroadcast of this information in whole or part without the prior written permission of Dell Inc. is prohibited. As a reminder, Dell is also simulcasting this presentation with slides at www.dell.com/investor. Later we will conduct a question and answer session. [Operator instructions.]

I would like to turn the call over to Ms. Lynn A. Tyson, Vice President of Investor Relations and Corporate Communications. Ms. Tyson, you may begin.

Lynn A. Tyson, VP Investor Relations & Corporate Communications

Thank you. With me today are Chairman Michael Dell, CEO Kevin Rollins, and Senior Vice President and CFO Jim Schneider. Jim will review the fourth quarter and full year fiscal '05 results, as well as our outlook for Q1. Kevin will follow with his perspective on our strategy, and then we will take your questions before wrapping up the call.

As the operator said, I would like to remind you that we have posted a presentation on our website at www.dell.com to accompany this call. We encourage you to read our financial statements as well as our web decks for additional financial and operating numbers.

Before I begin, I would like to provide but a brief update on our IR program this year. Once again, throughout the year we'll host four executive management calls. The first call will feature Bill Amelio, SVP of our Asia Pac region, and Paul Bell, SVP of EMEA, and this call will be held on April 11.

Our annual analyst meeting will be held in Austin, Texas on April 6th and 7th. We have sent out reminders by email and online registration information will be sent out soon. The main meeting will be held on April 7th. However, on April 6, similar to last year, we will offer senior executive briefings on several key topics including printing and imaging, services, consumer electronics, and client products. These briefings require pre-registration. Space is limited and will be filled on a first come, first served basis.

I would now like to turn the call over to Jim.

James M. Schneider, Senior VP and CFO

Thanks, Lynn.

Our fourth quarter results capped a year in which Dell delivered strong performance and records across the board, including unit shipments, revenues, operating income, EPS and cash flow from operations. Looking at our results for the full year, we grew revenues almost 19% to 49.2 billion. Our operating income was up 20% to $4.3 billion, resulting in an operating margin over 8.6%, the highest level in 4 years. We generated pro forma EPS of $1.29, up 28%.

This excluded a $280 million tax charge or 11 cents per share in the fourth quarter. This charge was taken in anticipation of repatriating $4.1 billion in foreign earnings in 2005 at a one-time favorable tax rate pursuant to the Americans Jobs Creation Act. For the remainder of the call, all references to our earnings and our tax rate will be pro forma excluding this charge. Our cash flow from operations was $5.3 billion, an increase of 45%, and for the full year we spent $4.2 billion to repurchase nearly 120 million shares.

Turning to our financials for the fourth quarter, we delivered EPS of 37 cents, an increase of 28% year over year on $13.5 billion in revenues. An increasing mix of international profits reduced our full year tax rate to 25.25%. As a result our Q4 tax rate dropped to approximately 23% to bring our total year to date rate in line. This added an additional penny of EPS in Q4. We delivered an operating margin of 8.8%, up 30 basis points year over year, even as we continued to make investments to support the anticipated growth of our business.

Our cash flow from operations was $1.8 billion, a company record. Dell's cash flow continues to benefit from the strength of our cash conversion cycle which was a negative 37 days for the quarter. Our cash and investments at quarter end stood at $14.1 billion, another record. Finally, we spent almost $900 million in Q4 to repurchase 22 million shares.

FY05 was an excellent year and our results reinforce the competitive advantages of our model. As we enter the new fiscal year we remain committed to driving profitable growth across our business regardless of the environment.

Looking at our products and services, we delivered strong results across the board, with total unit growth of 19% year over year, widening our number one computer system share position by 1 point to 17%. In the enterprise our revenues grew 17% year over year. In storage our total revenues grew 27% year over year, driven by strong demand for our storage area network products. Our Dell/EMC revenues grew 46% year over year.

During the quarter, InfoWorld named the AX100 the "SAN of the Year," highlighting its simplified setup and ease of use. And in the near future we'll be introducing iSCSI storage arrays which will offer significant cost savings versus fibre channel configurations.

Our server revenue grew 18% year over year on unit growth of 25%, driving our share up by over 0.5 point. For the full year we increased our number one US server position by 1.7 points. We now represent almost one quarter of the market worldwide and nearly one third in the United States.

Our server products continue to garner recognition from customers and analysts. Small Business Computing named the PowerEdge SC420 server a top small business product based on its high reliability, support and value. And we continue to bring innovative standards-based products to market including the PowerEdge 1855 Blade Server which utilizes Dell's OpenManage systems management software to consolidate chassis and blade management functions into a single interface. The new Blades provide up to a 25% cost advantage versus traditional one-use servers. Since launching this product in November, we have seen very strong demand from our customers.

In mobility, notebook units grew 30% year over year, our 10th consecutive quarter of growth exceeding 25%. In the US our 27% notebook growth rate was the fastest among the top 5 venders. Recently we launched our new generation of notebooks utilizing the latest mobile chipset technology, PCI Express, and DDR2 memory.

Our worldwide-enhanced services revenue grew 32% year over year. We continued to grow our managed services and deployment business including signing agreements to manage over 80,000 seats for Philips Electronics and Bombardier. We opened our European and Japanese Enterprise Command Centers during the quarter to provide high-level continuous support for enterprise customers. We now have command centers in China, Japan, Ireland and the United States.

In software and peripherals we grew revenues 36% year over year, including 45% growth in Europe and more than 50% in Asia Pacific and Japan. In printers our shipments grew 111% year over year as we continued to see our corporate business ramp. Laser units increased nearly 4 times year over year, led by color lasers which were up almost 275% sequentially. Our US color laser share has grown to over 9%, less than 2 quarters after our initial launch. And our products continue to be recognized for their combination of technology and value, including a "Best Buy" award from PC World for the Dell 3000cn color laser printer.

Our inkjet shipments rose over 100% year over year. We expect our US inkjet share to be around 14% for the fourth quarter, up 5.5 points year over year. We introduced the Dell All-In-One 962 printer for home and small offices and the Dell Wireless Printer Adaptor 3300 which provides bi-directional wireless printing capabilities. We saw strong growth in all regions, with unit growth outside the Americas exceeding 130% year over year. And we have now sold over 1 million Dell printers in Europe since launching the region just over one year ago.

Customers continue to embrace the direct model for purchasing. For example, we increased the average order in our consumables queue to over 3.5 cartridges while driving the average answer time to down to 2 seconds. In Q4 our consumables were always 100% in stock, assuring customers that the cartridges they need are always available. And in PCs, our desktop shipments grew 16% year over year and we added another 1.3 points to our leading worldwide position.

Now turning to our regional performance, in the Americas we saw healthy demand from corporate customers. And we continued to invest in infrastructure to support our growth in the region. During the fourth quarter we announced our new factory site in Winston Salem, expanded our customer support center in Edmonton, and ramped our small package hub in Ohio, where we have shipped over 1 million orders since launching last quarter.

In the US our overall computer systems share grew 2.7 points year over year to 32.9%, expanding our lead over the number two competitor by 3.7 points. We were ranked number one in all US product and customer segments for the fourth quarter in a row. Revenue from our business customers, including small, medium and large companies, grew 19% year over year. As a result, our share in the US business segment grew 3.6 points year over year to 28.2%.

Consistent with our previous comments, the US consumer sector continued to be challenging. We maintained our strategy of balancing share gain with reasonable levels of profitability. While we carefully managed our growth during the quarter, we still increased our number one position by 3.6 points year over year to 34.7%. And outside of the United States, our Americas International revenue grew 27% year over year.

In Europe, revenues were up 22% year over year as demand continued to benefit from the weaker dollar. We continued to focus on building our enterprise capabilities in this region, growing total enterprise revenues 25% year over year. Our European server shipments grew 30% year over year, driving our share up 1.3 points to 16.8%. And in storage we grew total revenue more than 50% year over year including an almost 90% increase in Dell/EMC revenues.

In the Asia Pacific and Japan, we delivered revenue growth of 21% year over year on unit growth of 26%. This is 3 times the industry excluding Dell. In China our revenues grew 24% year over year on unit growth of 39%. While we are particularly pleased with our profitability in this region during the fourth quarter, we believe we can accelerate our growth rates heading into fiscal '06.

Finally I would like to discuss our outlook for the first quarter. These comments are forward-looking and are based on current expectations. Actual results may differ materially from those expectations due to a number of factors which are discussed in our annual and quarterly SEC filings and in the cautionary statement contained in our press release and on our website.

Looking at the overall industry, the first quarter is typically characterized by revenue declines of 7 to 8% sequentially, as consumer demand decreases following the seasonally strong fourth quarter. We expect the market to follow historical patterns in the first quarter. Dell is typically less impacted by the seasonal declines as we benefit from a stronger mix of enterprise and corporate sales. We are therefore forecasting revenues of 13.4 billion, up 16% year over year.

Given the typical Q1 market environment, we believe our operating margin will be consistent with the fourth quarter. Below the operating income line we suggest that you model investment and other income of about $55 million. We expect our tax rate to continue to decline as our mix of international profits increases. Accordingly, our projected tax rate for fiscal '06 is 24.25%, down 1 full point from this past year.

Finally the amount of share repurchase in Q1 should be at least what was spent in the fourth quarter. For FY06 we expect that our share count will continue to decline throughout the year. However, with the higher stock price in the fourth quarter, our weighted average share count actually increased slightly, and that could happen from time to time going forward. We expect an EPS in the first quarter of 37 cents, an increase of 32% year over year.

Now let me turn it over to Kevin for a discussion of our strategies.

Kevin B. Rollins, President & CEO

Thanks, Jim.

Our fourth quarter closed out another great year of strong growth for Dell. We have now met or beat our guidance to investors for 16 consecutive quarters, demonstrating a consistency of execution that is unmatched in our industry. Our strategy of profitable growth, delivering earnings per share and cash flow growth which exceed revenue, continues to deliver superior value to our customers and our shareholders. And we continue to expand and diversify our IT portfolio, particularly in enterprise products, services, printing and imaging and our businesses outside of the United States.

Looking back, consolidation was a major theme in 2004, with the industry excluding Dell struggling for hardware and services profitability. Some competitors focused on small market niches such as consumers, while others continued subsidizing hardware with more profitable lines such as printing. Still others, finding hardware profitable, profitability to be very elusive, exited the business all together. We expect this trend to continue.

The Dell model, which is uniquely able to offer the highest quality products and services while maintaining the most efficient cost structure, has consistently benefited from this consolidation. Since 2001 we have grown our worldwide and US share by over 40% to almost 18% and over 33% respectively, while improving our operating margins by 130 basis points. In contrast, companies relying on inefficient business models will continue to pursue profitless share gains through acquisitions or intense competitive moves, a strategy proven to be unsustainable in our sector.

While others have struggled, Dell continues to grow profitably, utilizing the strength of our core systems business to capture profit pools in emerging categories such as storage, services, software and peripherals, and the printing and imaging business. By driving these emerging businesses across customer segments and regions, Dell will continue to grow into a more broadly based and broadly acknowledged global technology provider.

Our fiscal year '05 was a key year in this evolution. In the enterprise we exited the year with our hardware revenue run rate of $8.5 billion. We grew servers 40% faster than the industry and we expanded our storage offerings in the mid range storage area networking market, leading to an increase in revenues of 41% in this category for the full year. Since fiscal year '02 our total storage revenues have grown by 180%.

Enhanced services exited the year on a run rate exceeding $4 billion. We have grown this business at nearly 40% annually for the last 3 years. In software and peripherals we finished the fourth quarter with an $8 billion run rate. We sold over 5.2 million Dell printers during the year and achieved almost 1.3 billion in total imaging revenues. And we have just begun to see our consumable stream ramp. They accounted for only 25% of our printing and imaging revenue in Q4.

In mobility, we drove strong notebook gains with a hardware revenue run rate of nearly $12 billion in the fourth quarter. Since fiscal year '02 units have more than doubled. Combined, these businesses now account for over 60% of our total revenue on a run rate basis. The remainder of our revenues were generated by our PC hardware business. And we have continued to expand globally. In the last two years our non-US revenues have increased almost 60%, with operating profits up over 100%.

In summary, Dell is a diversified technology leader as defined by our customers, our product mix and the market. We will continue to grow profitably in the core business while accelerating our expansion into these new, emerging profit pools. Yet we will always focus on our strategy of profitable growth regardless of the market or category.

With almost 50 billion in revenue this past year, we're proud of our achievements and are looking to the future. In fact, I invite you to join us at our analyst meeting on April 7th where we will outline our plans to grow the company to $80 billion in the future. With that, I would like to open it up for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions.] Your first question comes from Laura Conigliaro with Goldman Sachs.

<Q – Laura Conigliaro>: Yes, thank you. Two related questions, please. On your last call you actually said that there's no reason to think that you can't maintain your recent 18 to 20% year to year revenue growth. Yet you only grew 17% this quarter and your target for next is 16%. What if anything is actually changed in the last 90 days? And then related to that, is it does seem as if this is perhaps the third quarter in a row where you've fallen perhaps a little bit shy of what your revenue targets might have been, at least gauged from the viewpoint of having beaten the revenue numbers a little bit more firmly in prior quarters. Why should we be so optimistic under that circumstance about fiscal '06 or even a little bit beyond that?

<A – Kevin Rollins>: Well, Laura, thanks for your question. We have not changed our attitude nor sentiment from the last call at all. I think on reflection as we look at the business, I think Jim mentioned in his talking points, there's probably a couple of areas that we would like to spurt ahead a little bit faster in growth, Asia Pacific, possibly a little bit in the Americas ex-consumer, when we saw consumer being a little slower, and basically we're balancing the growth and making sure we hit profitability. But in hindsight we probably could have grown a little bit faster there and then would have – it would have added another few millions of dollars and would have been at the 13.5 that we guided to before. But we felt in the grand scheme of things we balanced these issues out, that's pretty darn close to the $13 billion company to come in with only 0.3% miss off of that. There will be times when we'll be on other side of that number too. But we have not changed anything in terms of our long-term commitment to the range that we hit last year at 19% and going into the future.

<A – James Schneider>: And Laura, I would just like to add, I think we actually take a fair amount of pride in this Company in terms of what information we give publicly. You referred to the last quarter. We actually were slightly higher in revenue than the guidance that we gave out.

<Q – Laura Conigliaro>: I understand. It's just that…

<A – James Schneider>: Some of you out there want to put higher expectations for us than that and I believe in these couple of quarters, my view is that we give you a point number when we're at $13.5 billion and I feel like we're hitting the targets that we gave you and we're feeling pretty good about how things have turned out for us.

<Q – Laura Conigliaro>: Jim, you're right. It's just that normally we would assume, or at least I would assume, that if to the extent that you give out a target, that you probably had an internal target that's a little bit higher than that in order to be sure that that target, the public target, is okay.

<A – James Schneider>: You know, Laura, I wouldn't necessarily say that. We give you the target that we think that we can actually hit. We're not trying to lowball this and beat the numbers so that, you know, we can create whisper numbers that are different. We tell you what we think we're going do and I think we have been pretty good at doing it.

<Q – Laura Conigliaro>: Okay.

Operator: Your next question comes from Richard Gardner with Smith Barney.

<Q – Richard Gardner>: Hi, thank you. Couple of questions. First of all in your presentation slides you mentioned that you're tracking ahead of your $60 billion revenue goal. I just wanted to clarify that that was intended to be for fiscal – that was intended to refer to fiscal '06. Secondly, Kevin, I was hoping you can give us your latest thoughts on what you think profitability in the printer business will look like in fiscal '06, will we continue to see most of the supplies profits plow back into more aggressive hardware pricing or do you expect to actually make a point or 2 on the operating margin line there? Thank you.

<A – James Schneider>: Richard, let many start on the – you know, we talked about that $60 billion target, it was back when we were at $30 billion of revenue. And I think the implication was that we would hit $60 billion in '07. And while I'm not saying we're going to hit $60 billion this year, we are quite a bit ahead of where we would have been if we were tracking to that in '07, so I think that's just the reference that we make because our run rate already right now is at 54 coming out of this year. So we're going to be closer to 60 than anything else by the time this year ends. So I think that's the point we're just making.

<A – Kevin Rollins>: On the printer business, Richard, our goal has been to grow the installed base. It has not been to harvest a lot of profitability out of that business initially. The good news is that we have been continually surprised by the lack or modest investment we have had to make to get that done. I think for a good portion of this coming year that's still the strategy – it's to get much bigger. I would anticipate by the end of the year we will be in a position where we can start disclosing a little more profitability information and where we're headed, but right now the mission is to grow, grow, grow, get bigger and bigger, so that we have a scale to operate in that business. We're pretty pleased that in one year we could move to 5.2 million. None of you thought we could do it. In this coming year as we grow that business into multiples of that, possibly, we still believe that that is the best strategy is to grow the business right now in unit volume and then we'll start focusing on maximizing profit dollars.

<Q – Richard Gardner>: Okay. Thank you.

Operator: Your next question comes from Rebecca Runkle with Morgan Stanley.

<Q – Rebecca Runkle>: Hi, good afternoon. Thank you. First, just as we think about the competitive landscape and you alluded to this in the presentation, clearly a lot of changes with some of your competitors in that hardware market. Just would be curious to hear your perspective on what you saw most recently given the proposed IBM/Lenovo transaction in terms of how IBM is competing in the market and then also HP has publicly said that they want to manage their business for profitability, yet I'm not clear that that is necessarily how things have been tracking, and again would appreciate some color and commentary in terms of how you're seeing them compete most recently, and then I have a quick follow-up.

<A – Kevin Rollins>: Okay. Well, the IBM/Lenovo merger, again both of these developments are fairly new in terms of reaction to the marketplace. I don't know that we have an awful lot of data to give you yet. The pricing behavior through most of the Q4 or our fourth quarter period were not much different than they were prior to the fourth quarter, so there wasn't a recognizable change to any great extent there. But what we would anticipate and what we do hear is that many customers who were possibly thinking about going with one of our competitors or that we were in a kind of jump ball for business with, have really kind of frozen and they're now either inviting us in or are revisiting business that we might have lost. So I think on the margin we believe that this has been good for us, but it's not quite to the point where we can come back with a number to tell you what that will do. We're going to have to wait and see. As you know, most of our customers are corporate customers. They put out official requests for bids and then they run against an approved vendor list once someone wins those bids. They don't do that each night. So a lot of them finish out their business and then will come to a new period where they'll run a new request for proposal or request for quote. I think that's when you'll see it, is the opportunities we have to bid on those new opportunities and maybe have a leg up.

<Q – Rebecca Runkle>: And then as a quick follow up to your commentary on the US consumer, any more color that you can provide in terms of how that tracks throughout the quarter or in other words, did that get incrementally weaker throughout the quarter or did you see it strengthen or was it just generally weak from month to month during the entire period?

<A – Kevin Rollins>: We grew about 10% in the quarter. And we will govern how fast we'll grow in the consumer business, because as many of you know and we told you pretty overtly, consumer business is not as profitable as other sectors to grow in, but we'll govern that and grow there when we can when we think we can make profits. The business was slower. We talked about that actually in Q3. We thought it would be slower. We believe that's true for the coming year too, as consumers bought heavily the year before and are now just not buying. The good news is the corporate market has picked up, and as we grew this past quarter 19%, which is where we have more of our revenues, that's a real positive opportunity we think for us as well as some of these new developments within our competitive set. But the consumer business was – I don't know that I can give you a week by week, month by month blow by blow on that, but it was slower. It was a little slower in January possibly than we had anticipated, and so you saw us make sure we didn't give away the farm in margins, and that has somewhat to do with the tens of millions of shortfall.

<Q – Rebecca Runkle>: Perfect.

<A – James Schneider>: I think just to add on to that and some of the question on – you know, on revenue, if you think about our consumer business and if we're off on the growth rate there by a couple of points, you're talking about maybe $50 million of revenue. Had we have gone after that and adjusted our pricing downwards, probably would have spread across the entire base of business, I think we could have had a little more revenue with even less profitability and we're really focused on this consumer business in terms of balancing revenue growth with good or at least reasonable profitability as well. So these are the tradeoffs that we're going to make from time to time to really balance this business. And that's why I – we're really focused on good revenue growth but strong profitability and then turning that profitability into cash.

<Q – Rebecca Runkle>: Great. Thank you very much.

Operator: Your next question comes from Ben Reitzes with UBS.

<Q – Benjamin Reitzes>: Good afternoon, thank you. Just wanted to kind of understand with the overall quarter with regard to your tone during the beginning of the quarter, obviously when you gave your call was pretty good and the quarter started out very strong. I was wondering if you could give some color on the enterprise business as you went throughout the quarter, and if that got weaker in January as well like consumer, and what your tone is for government spending as well going forward, given the new budget and whatnot and then I have I just have a follow-up on printers.

<A – Kevin Rollins>: Ben, the business environment was strong all quarter. And so we're very pleased with that business, basically we had talked to you before we came into the quarter, so not a whole lot to again give you on month by month there. It was strong. The enterprise business, as we talked about last quarter, we felt we could resurge and accelerate. That happened this quarter. We believe that in the coming quarters we're going to meet or even beat the growth targets we have now hit within the enterprise space, so we still believe the corporate market is good and for us that's a good thing because it's where we spend most of our time. That was true across the servers and we talked about our EMC, Dell/EMC storage products growing at 46%, overall storage 27, those businesses are back and humming, and in Asia and in EMEA, those businesses grew close to 90%. So they're up and running and people are buying.

<Q – Benjamin Reitzes>: And with regard to government, Kevin, there's been some talk about maybe some weakness in that market going forward?

<A – Kevin Rollins>: Yeah. The place that we have talked about weakness has been in the Federal buying arena. Again we have known that and again have talked to you about each of our conference calls. We don't anticipate the Federal sector to improve a lot. It's going to be – you have seen President Bush's budget. There's going to be some austerity there. So we're not forecasting or planning to have that be a big growth segment for us this year. However, we do still believe that there are other public sector segments that we'll participate in that will do well, education, state and local, higher ed, and we'll continue to pursue those businesses kind of on normal seasonality.

<Q – Benjamin Reitzes>: And switching gears to printers, you have had some rapid growth, you have a $1.3 billion business. There's some management changes at HP, your largest competitor. I think you've spoken in the past about selling their printers. I mean with the management change, would you consider that type of arrangement or do you think you have the current partnership intact where you need to be in the marketplace?

<A – Michael Dell>: Well, my view today we have access to about a third of the IP and the printer industry. And we've brought out a pretty broad cross section of products that allows us to cover a wide portion of the market. We've made a lot of progress in inkjet and in laser. Our color laser products have been out for about two quarters now and we're approaching double digit market share in that segment of the printing and imaging space. So this business is off to a good start. If there are other suppliers who want to speak to us, we'll be glad to entertain discussions with them.

<Q – Benjamin Reitzes>: Thanks a lot, Michael.

Operator: Your next question comes from Steve Fortuna with Prudential.

<Q – Steven Fortuna>: Just a series of short questions. First of all, I'll just ask them all, and you guys can answer them in turn. First is Jim, what is your assumption on component prices in Q1 in terms of the overall bill of material decline? Second would be, you did about 5.2 million printer units in the past year. What's a reasonable bogey in terms of unit growth in fiscal '06, 50%, 70%, are those too aggressive or are they maybe too conservative? Third is, I don't think you mentioned this, but can you tell us what small and medium sized business growth was in the quarter year over year? And then lastly for you Jim, in terms of the op margin, you have been expanding it nicely over the past four quarters. Obviously the revenue was essentially in line and at least to my mind. Is it fair to say that the bias of management right now is maybe a little more towards making sure that the op margin continues to march upward each and every quarter going forward, even if only by a small amount, even if it means a little bit less revenue performance?

<A – James Schneider>: Steve, let me take the components and the margin, they go a little bit hand in hand. The component environment in past quarter as I think everyone has talked about was pretty good, and we were back to this kind of 0.5% a week or so decline, and I think a little bit you could see with probably a little less units in consumer, you saw a little better component pricing. We expect that going into Q1 to continue to decline, maybe not at quite that same rate, but we're still seeing some softness. This is typically the weakest quarter of the year for IT technology, so I think this would be a pretty good component cost environment for us both on cost and then for supply.

On the question on margins, a good one, it's something that we kind of just played out here in this quarter. We felt like there were pressures really and some of you had op margins even that might have been down 10 basis points in the quarter. I think this toggle between the rest of the business and consumer played out pretty well for us. So yeah, you might have slightly less revenue but very strong profitability. And I think – I would like to do that throughout this next year. I think the first quarter it's really hard to kind of keep that same operating margin where you don't have revenue growth and you've got the cost base that we're continuing to build, wanting to set the expectations for more growth later in the year. But I think for the rest of the year, I'd make an observation too that's when you think about revenue growth and the fact that you're talking about even 16% in the first quarter, if you take out what is now kind of a weaker consumer business at least, you really have 18% revenue growth and really strong profitability in the rest of our business. So at some point the consumer business will come back as well, but when you're looking at a better profitability in our corporate and improving profitability in some of our overseas business, where now we're actually act like it's 18 kind of percent revenue growth, that's why we're feeling pretty good about where we are right now.

<A – Kevin Rollins>: Steve, on the printer business, in April we'll give a lot fuller disclosure of what we're trying to do with the various business sectors that we participate in and where we're trying to chart that business as we head towards 80 billion. So I think you'll have to wait until we get there, but I think you'll be pleased. On the corporate side, we had the small medium business grew a tad faster than the 19 and the largest corporate growth a tad slower, but they're both pretty darn close.

<Q – Steven Fortuna>: Great. Thanks very much.

Operator: Your next question comes from Andrew Neff with Bear Stearns.

<Q – Andrew Neff>: Sure, clarification and a question. The clarification, I just want to make sure I understand what you're saying about the revenue outlook and with your 16% growth in the first quarter year to year, you still are comfortable that the 18 to 20% is – is something you can still shoot for? The second question, more of a just maybe just is there some way we can get more visibility into your overall enterprise reporting. Is there some way to give us more visibility into how the enterprise business is going on a standalone basis compared to other enterprise companies?

<A – James Schneider>: Andy, let me take a whack again at this revenue thing, and then I'll let Kevin respond. We're not really giving a revenue target out for the year. We didn't say it would be 60 billion. What we had said in this last quarter that we had strong revenue growth. We thought we could continue to have that. The consumer business again was a little bit lighter than we thought. It also has very light profitability. If I take out consumer I'm running at 9.5 points of op income, not at 8.8. So our point really is that look, this business is going to continue to grow and we can turn in the profitability. So whether we're at 17% growth rate compared to 18% growth rate, if it's in the right places, we're going the make the right amount of money and turn it into cash flow. And that's really our focus for this coming year. So Kevin, you want to add to…

<A – Kevin Rollins>: No, I think we – we're going to grow rapidly. We talked about the trajectory and the range at which we had been growing over the last little while and believe that's still the case. So if it's 16 once, and then 18 and 17 and 19 and 16, that's just what it's going to be in order for us to make sure we deliver on our profitability targets. As we see how we calculate our PE and the multiples in our business based on the profitability. So that one is going to be the one we shoot for as we then manage the overall top line to make sure we always don't disappoint on the bottom line.

<A – James Schneider>: Because we can't turn revenue into cash. We can turn profitability into cash.

<Q – Andrew Neff>: Okay. Then the second question just related, Jim, just in terms of is there some better way to look at Dell in terms of the enterprise revenue reporting and could you give us more visibility into that at some point?

<A – James Schneider>: Andy, I'm really glad you asked about this. I think there's a lot of kind of insights we can give to this over time. We're seeing a lot more services revenue relating to enterprise as well. It's another thing that – you know, I don't think it's asked about a whole lot, but our deferred revenue now is up to $2.8 billion on our balance sheet, and we're growing a disproportionate amount of that relating to services that relate to enterprise. So if you look at kind of on and half-sold basis in terms of what gets added on to our balance sheet that's very high profitability that will amortize out over the next couple of years, the revenue growth rates would even be higher than what Kevin just talked about with respect to the enterprise. But I think on some of these things we need to give you more visibility to that and the fact that, yeah, there's a lot of other revenue sources that we have beyond the core hardware. The basic hardware outside of enterprise is probably growing at a 12% rate, so it's really everything else that kind of goes around it that has better profitability, and I think we'll try to give you a little bit more visibility to that when we get to the analyst meeting as well.

<A – Kevin Rollins>: Andy, that's our plan. Today as I gave those final remarks, the enterprise hardware business was 8.5 billion. And it's been growing very rapidly. I think we'll start sharing with you the fact that Dell is a very diversified technology provider at this point in time. If you look at 8.5 there, 4 billion in our services business, software and peripherals at 8 billion including printers and then lastly home mobility products, those are all sectors that are somewhat disconnected, but we organically try to tie them together. But that right there tells you a little bit about the various pieces of the business and they're all growing at slightly different rates and have slightly different profiles for profitability.

<Q – Andrew Neff>: Thank you.

Operator: Your next question comes from David Wong with AG Edwards.

<Q – David Wong>: Thank you very much. Just to push a bit further on the component issue, are you seeing all types of components in plentiful supply, given that you're seeing the normal pricing drops, or are there some shortages in some types of components?

<A – James Schneider>: I think the component environment has been pretty broad-based. I think when I mentioned in the fourth quarter that the declines were stronger than what we expect in the first quarter, I think you can look at panels specifically for that. We saw a tremendous drop in costs there, a great amount of demand pick up as well. And I think now when you get into Q1 you're going to see that moderate some. But when I look across everything else, we still see some softness in memory or in storage, and so I think it is pretty broad-based and I think the supply availability is good as well.

<A – Kevin Rollins>: There will be unique categories that have a shortage possibly for some very limited period of time. I think a lot of you heard about the hard disk drives which there are some challenges on. But when we look at those and we work through those with our suppliers, generally you have never heard us say we could not make our numbers because we couldn't get supply on things. We usually work through supply issues, we shift the mix, we move ahead and make the numbers.

<Q – David Wong>: Have you seen any microprocessor shortages?

<A – Kevin Rollins>: Any what?

<Q – David Wong>: Microprocessor shortages?

<A – Kevin Rollins>: No.

<Q – David Wong>: Thank you very much.

Operator: Your next question comes from Toni Sacconaghi with Sanford Bernstein.

<Q – Toni Sacconaghi>: Yes, thank you. I have a couple, please. It feels to me that there is a little less focus and effusiveness around revenue growth and that's reflected somewhat in your guidance for Q1. And it appears to be somewhat justified or seems to be focused around the notion of Dell really focusing on improved and better profitability. And you mentioned that you really kind of focused on profitability in consumer at the expense of kind of driving revenue growth. Can you point to evidence of fundamentally improved profitability? The consumer business actually had flat profits despite the fact that revenues were up 10%. Gross margins were essentially flat. You cut R&D about $7 million sequentially, but I'm not ultimately sure if that's a sustainable model for improved profitability. So if you are trying to communicate a message of a real focus on profitable growth, and really that being the preeminent focus, what are the sources of evidence and metric that we can point to from this quarter that can point to that, especially in light of the fact that you admit that component pricing was extraordinarily favorable, or relatively speaking extraordinarily favorable, relative to previous quarters and we really didn't see any margin improvement?

<A – Kevin Rollins>: Well, a couple of things in that, Toni. I think you did see a continued improvement in our overseas business and so you saw benefits, our 1 point of tax wasn't an accounting treatment, it was the fact that we made more money in our Asia and EMEA businesses where we have better tax treatments, and therefore with that higher operating performance we had another penny in earnings. So we beat the earnings by a penny. We consider that an operational improvement, not a tax accounting improvement. So we did think we see it there. We do get into periods where we have very aggressive pricing in the holiday season, many people go after volume, the consumer wasn't there. So people priced down, profitability wasn't great, so we backed off. But that doesn't – one robin doesn't make a spring, and so we don't look at one point and decide that's going to be the one data point that draws the trends from then on out.

<A – James Schneider>: Toni, let me just add, I don't think we're trying to give anyone any impression, and Kevin mentioned that earlier, that anything has really changed here. I think we're just talking about any one quarter. We gave guidance coming into this quarter that we would be at $13.5 billion of revenue. We're at about $13.5 billion of revenue. I believe that the consensus coming into Q1 was somewhere around 13.4 to 13.5. We're about there. So I don't see any shift from anything that we're saying and going back to profitability, what did change a bit is the consumer profitability, which we managed to overcome by focusing on the right segments. We had no op income growth in consumer. It's right on the materials that are out there on our website. It's almost 20% of our business, had no improvement in operating income year over year, and yet we improved the operating income of the company 20% year over year. So obviously there's a lot of parts of our business that are growing and we're continuing to build on that profitability. So all my point is, look we're going to pick some spots quarter to quarter, and, you know, it's fair to ask us about anything, but I think as we, you know, as we look to this, we're achieving the targets that we set out for you and we'll kind of continue to do that.

<Q – Toni Sacconaghi>: My second question is also about printing. Can you comment on your sequential printer unit growth? The market typically grows about 40% sequentially. You guys grew about 90% sequentially in Q3 to Q4 last year. My sense is that you were – that you were probably around the market growth rate sequentially. Can you comment on what it was, how you fared relative to that – my belief that the market growth's about 40% sequentially and can you comment on whether there were any constraints or reasons for what appears to be a more muted growth relative to last year in this quarter?

<A – Kevin Rollins>: Well, you know, our year over year growth was 111% in printers in the fourth quarter. The sequential growth was 32%. I'd point out that our printer business is also, the profile is also changing as we're selling more laser printers proportionally relative to what we were selling, and as we have talked about earlier on the call, our disciplined focus on profitability led to fewer consumer units than one might have originally expected.

<A – James Schneider>: I think you also got to measure, every one of our computer, or printer units is sold. There's no sell-in, there's no channel stuff, there's no channel build. It's sold when we sell it.

<Q – Toni Sacconaghi>: And finally, just to follow up on that, the focus on profitability is – is that an explicit trade off? You mentioned about how the focus to date had really been on driving the installed base. Where are you in your evolution on thinking between that trade off between installed base growth and profitability?

<A – Kevin Rollins>: Yeah. We're still in installed base growth, 100%.

<Q – Toni Sacconaghi>: Thanks very much.

Operator: Your next question comes from Harry Blount with Lehman Brothers.

<Q – Harry Blount>: Hi, guys. Couple of questions. One is I want to focus a little bit on the services and software businesses, which obviously are higher margin. I wanted to see, you were a little bit ahead of what I was looking for on the services side of the 4 billion run rate. Could you give us a sense perhaps on the attach rate that you're seeing for the services and software business? And then a second question is related to the 80 billion number, Kevin, that you put out as a teaser. Are you looking at that as kind of an FY08 or FY09 type target?

<A – Kevin Rollins>: We're not ready – we'll talk to you a little bit more about that in April in terms of the time lines on those. I think what we wanted to make sure is that everyone understood that to still have a 60 million target when we're getting real close to that this year is kind of silly. So we're going to lay something else out and describe it in detail how we get there to you in the April meeting. Regarding our services, it's kind of hard to give you an attach rate, because if we're doing a managed service activity or a professional services, it's not attached to a unit. So the attach rate phenomenon doesn't really make as much sense as it might have when we were selling a consumer PC with an extended warranty. So it's a little hard to give you attach rate. We have attach rates on various offerings, but it's kind of hard overall, because we're now getting such a diversified services portfolio. We have service offerings that are up into the 80 or 90% range on a lot of our enterprise products. And then you have a managed services or you have deployment services or professional services which are sold to a company at large. And so attach rate doesn't really make as much sense there. I hope that helps. We don't have kind of the numbers anymore by attach.

<Q – Harry Blount>: Okay, and then, Jim, a question on the European profitability. Looks like that took a meaningful step upward from kind of the trend line you have had over, say, the last 6 or 8 quarters. Can you maybe expand on a little bit of what happened as to why you saw that meaningful step up in Europe? And is this a sustainable number? And then also to clarify a comment you made about share count, you said you'd expect it in the April quarter to be roughly the same as the January quarter. Do you mean that in terms of shares bought or dollars?

<A – James Schneider>: Okay. Yeah. Let me talk about Europe first. This is kind of, you know the classic Dell model at work in terms of having really robust revenue growth now over a number of quarters. We have been able to take that revenue growth, improve our infrastructure there. We're still building a team. Market shares are relatively low and our profitability has actually always been lower than what we'd like. And what you're seeing now is they're getting the doubling up effect of this good revenue growth and also being able to improve the profitability as you scale your expenses over a much better revenue base. So I think we've just improved our capabilities. We're more effective there, we've got a stronger management team and I think you're seeing that happen. I think – we are getting the positive impact of the euro, but again I'd mentioned this a few other times. But it's not what people think, because so much of the currency improvements have been passed through to customers. What you're seeing is a really robust European market where the growth rates in Europe are like 50% higher than the rest of the world. And now we're in a better position to take advantage of that. We're taking share and it's really helping to improve our overall profitability. So yeah, I think as long as that market stays pretty robust, I think you'll see - our plans for this quarter again in Q1 would be for the growth rate to be stronger than the company average, and we're continuing to try to narrow that gap between European profitability and the overall company's profitability.

On the share question, what I had meant was that we had spent almost $900 million in the fourth quarter. I would expect that we would spend at least that much in Q1. I always mention that we go over this every quarter with our Board and so what we end up spending in this quarter is not locked down, but it would be at least what we spent this quarter. Do you have another question on that, or does that answer it?

<Q – Harry Blount>: That's it, thank you.

<A – James Schneider>: Okay.

Operator: Your next question comes from Steve Milunovich with Merrill Lynch.

<Q – Steven Milunovich>: Thank you. Jim, today I bought a pretty fully configured desktop so, I'm trying to help you out here.

<A – James Schneider>: I hope you spent more than the average selling price.

<Q – Steven Milunovich>: I got sucked in by that free upgrade on the 17-inch display, and by the time you go through all those pages, you're checking out this and that and, you know, believe me, I think it's above average.

<A – Kevin Rollins>: You're going to love it.

<A – James Schneider>: Did we finance it for you too, Steve?

<Q – Steven Milunovich>: That's okay, but you can install it. Two questions. First of all, last quarter you indicated that you had some transition issues on the server line and at the end of the quarter it was really starting to roll out at kind of a 25% growth rate. Could you talk about whether there was much of a catch up effect in your server numbers this quarter and if you expect some slow down going forward? And second on the R&D question, you've been very flat in R&D. You are obviously emphasizing the enterprise business. What type of R&D growth if any would you expect in the next fiscal year?

<A – Kevin Rollins>: Let me just talk about, for R&D we have not forecasted down to the OpEx line item, Steve, so I don't know that we would kind of give you that number. Our goal is still to put most of our R&D or the bulk of it towards the enterprise products and to mobility products. We have got a very, very large PC business, the desktop business, which kind of scales nicely off of a somewhat fixed rate of R&D. So the growth will come probably somewhat commensurate with what we do on the overall enterprise front.

<A – Michael Dell>: I think we're feeling very good about the enterprise momentum going into this year. The product line is refreshed. I don't know that there was a ton of catch up. I think the issues that we saw in the third quarter were also somewhat experienced by the marketplace as well. And we feel we're well positioned for very solid enterprise growth.

<Q – Steven Milunovich>: You guys deal with the SMB market more than most. Do you have any sense whether the accelerated depreciation tax credit made any difference in sales in the fourth quarter there?

<A – Kevin Rollins>: I don't think we really know, Steve. I have not heard that coming back up through the sales teams as being a big driver – the small medium business market has really been growing very rapidly now for 4 or 5 quarters, so I don't think just that end of quarter thing had anything to do with it.

<Q – Steven Milunovich>: Okay, thank you.

Operator: Your next question comes from Joel Wagonfeld with First Albany.

<Q – Joel Wagonfeld>: Thank you. It sounded like last quarter you still had some investments you were planning to make in terms of infrastructure and build out for growth. And I'm just wondering in conjunction with that, normally you would invest EPS upside for revenue growth as you have talked about. So I'm wondering given that the revenue was in line and the EPS was above, are those investments largely completed and was there just insufficient enterprise revenue to go after with more aggressive pricing and as a result you just decided to walk away from potentially more consumer business? Or how did all those factors kind of play themselves out in your calculations? Thanks.

<A – Kevin Rollins>: Joel, I think as we have talked before, the consumer is the only place we were really trying to govern the model here to make sure we landed with profitability. We talked earlier about on the margin we probably would have preferred a bit more growth in Asia. We think we now – we probably could have got it. You didn't know, and when things are going through the quarter you run these things pretty close. We would have preferred a little bit more growth in the non-consumer US business. I think we could have got it. So on the margin, that's why we're still feeling very bullish about the growth prospects. Probably could have cranked it a little bit more there. It doesn't make sense to crank it the last week because you give up massive amounts of profitability. But had we done it a little earlier in the quarter, in hindsight now probably would have been good to erase what I'm sensing is a concern on the growth rate. We're not feeling that same concern, because we know how the quarter panned out and are trying to guide the company as large as it is effectively through the entire quarter, but there may be a little put or take here and there on the overall growth but we could drive through and never miss our profitability.

<A – James Schneider>: And just to add to some of the investments we're making as well, I think you can see that probably in the last couple of quarters we haven't made as much progress on operating expenses as a percent of revenue and we are putting in a lot of thought into the kind of facilities needs that we had. I mentioned a few of them. But we have got, you know, new call centers opening. I think that we went for a couple of years after the economy downturned, we were able to get by with kind of the same level of facilities and keeping down our headcounts and you could see we're adding people and facilities and capabilities because we believe that we're going to have strong growth throughout this year. And actually when I answered Toni's question earlier, I should have noted that somebody might get the wrong take away even from the RD&E expenses. One of the things that as we continue to scrub our financials over time, we have found that there's some engineering and other costs that had been reported on that line item that really maybe more appropriately would have belonged in cost of sales. So it wasn't a big enough thing for us to call out, but if you take $15 million back out of that line like this quarter, you'd actually have some growth there year over year. So I don't want somebody to get the wrong impression; in terms of our size of our financial it's kind of a nit. But I'm actually glad that was asked.

Operator: Your next question comes from Keith Bachman with Banc of America.

<Q – Keith Bachman>: Hi. I wanted to ask a question about the geographies if I could. Jim, you mentioned improving the geographies EMEA and Asia Pac in terms of scale. Is, in Asia Pac and Japan, is there still scale opportunities to improve those margins? It's roughly at the corporate average or a little bit better. Is the target, can those get equivalent to the American business unit and the same for EMEA?

<A – James Schneider>: There's probably, I think there's probably more, especially in the more near term for Europe to get closer. I think, and I said this last quarter and Kevin's alluded to it now a couple of times, but we would have preferred to have the fastest growth rates out there. I think we, it's where we're the less mature, we're still building capabilities, but we'd like to see that growth rate be higher and the operating income percentage actually be lower. I mean, for that to be at the corporate average at this stage of its maturity is great. That's why I'm saying we're really happy with the profitability. If we had gotten to those same profit dollars with better revenue growth in this past quarter I think we'd set ourselves up better for the future. So this is something we want to accelerate that growth some. I don't necessarily, I think – I said this last quarter, I thought that profit margin would probably go down and it didn't.

<Q – Keith Bachman>: Right.

<A – James Schneider>: So the guys in all our regions, they're very focused on achieving good revenue growth and profitability and it's something we kind of continue to balance and I think there we would like to see the balance swing a little bit more to revenue growth.

<Q – Keith Bachman>: Jim, a clarification on the tax rate. I think you said 24.25, but I just want to make sure I understand that.

<A – James Schneider>: We're calling out – you know the way the tax rates work, whatever your rate is, you're always working off a full year rate. We were at a 26% rate for last year coming into Q4, and this difference in profitability and things that have happened internationally for us, we felt like the full year rate was closer to 25.25. So it dropped the Q4 rate down all the way to 23, which did give us a penny of EPS. That rate drop now, as we look all the way out through next year, we believe that we're – I don't want to keep adjusting this tax rate all the time. I mean we have been pleasantly surprised by this. We now view the full year rate for next year at 24.25, which takes us down another point. It actually adds less than a penny of EPS for us in Q1. So the fact that we have guided to 37 cents compared to the prior consensus for 36, we're talking about pretty good operating results regardless of which revenue number we're talking about for Q1.

<Q – Keith Bachman>: Okay. Final question for me is just as we think about the framing FY '06, if you think about the enterprise business per se, product transitions over, will that business as we think about it continue to outpace the rest of the growth? You still look for that business which I imagine pulls a lot, a disproportionate amount of the services, to outpace the rest of Dell's growth?

<A – James Schneider>: I think the simple answer is yes. We're anticipating in Q1 to be at or above the kind of growth rates we already hit. So I think as we now have a full, well-developed product line, we've now got a full, well-developed storage product line, the services offerings are getting more mature and strong, our anticipation is those are the products that will still be focused on by our company as strategic product initiatives.

<Q – Keith Bachman>: Okay, thanks very much.

Operator: Our final question is from Richard Chu with SG Cowen.

<Q – Richard Chu>: Hi. Good afternoon. I think you are beginning to sound like the New England Patriots.

<A – Kevin Rollins>: Congratulations, Richard. We watched them and congratulate you for their victory.

<Q – Richard Chu>: Thank you. Couple of questions. One, pretty straightforward. You mentioned that consumables were about 25% of the printer business. Few weeks back when you were in Boston, Kevin, I thought you said that those numbers were running closer to half and I wondered whether I'm misunderstanding the dynamics or there's some seasonal shift that's going on.

<A – Kevin Rollins>: I think we were just talking about some consumables bought at point of sale in parts of our business, was the - buying an extra cartridge here or there.

<Q – Richard Chu>: Okay. So 25% of the billion, we should think about the, that being around a quarter of the billion in revenues in the past year?

<A – Kevin Rollins>: Yeah. That I think was a revenue number.

<Q – Richard Chu>: Yes.

<A – Kevin Rollins>: Yes. That's about right, although it's been increasing as a percent of the revenue every quarter obviously, because the installed base is growing and the installed base is buying.

<A – James Schneider>: Yeah, I think it's closer in this – in this quarter, those numbers would be for the year. I think for the quarter it's probably more like 30%.

<Q – Richard Chu>: Okay. And I was looking at your regional data disclosure and I want to use the US as a proxy here, but for example, US business revenue growth is 16%, consumer is 10% and unit growth is 19 in business and 7 in consumer. So from that I would conclude that, notionally, revenue per unit is up 3% in consumer, but down 3% in business. And I think historically a year, 18 months ago, those same dynamics tended to the to the opposite, that the consumer ARP tended to be down and business tended to be up. And I'm wondering what that says about the changing model dynamics.

<A – James Schneider>: Well, I mean my initial observation, you know, to that, Richard, is that the lower end of this consumer business is just not profitable. So when we look at our consumer business and we can't up-sell people to something else, and get some add-ons to this business, you can't achieve even the 5% profitability that we did. So I think we have very carefully managed that business. That clearly is a business that revenues for revenues sake you know, is not going to be that helpful. I think if you look at the corporate business you're seeing this market expand more, we're probably now into more acquisition business. You're going to see a mix of aggressive pricing and us to continue to take share, but you're seeing a better mix then of the enterprise business and services and other things that will create better long term profitability. So I'm not really surprised by the numbers, and I kind of look at them that same way.

<Q – Richard Chu>: But you don't think that the attach rate on things like software and peripherals tend to be a little bit more heavily driven by the consumer side, for example printers. And services, I assume, enhanced services certainly would be equivalent of - I was a little bit surprised to see the revenue per unit number not be the reverse, given the huge growth that you have seen in things like enhanced services.

<A – James Schneider>: Yeah, again I think part of the issue is when you get down to where some of the consumer pricing is at, I mean you can see ads for 399 computers. So our basic is to really up-sell which is what we're accomplishing which is why you're actually seeing those selling prices hold pretty steady. Because that's the only way you can really make a profit in this business.

<Q – Richard Chu>: Okay. Thank you very much.

<A – Kevin Rollins>: Thank you, Richard.

Kevin B. Rollins, President & CEO

Let's conclude. We're really excited about the business still and have not changed any of our thoughts or trajectory sentiments heading into '06. As our prior year results indicate, we continue to demonstrate the strength of our model and the soundness of our strategy and we look forward to sharing with you at our April analyst meeting our plans to grow the business to 80 billion. As I mentioned, this analyst meeting will be coming up in April. We encourage you to attend. We also encourage you to attend a little bit new – a different format than we have used before, with executive briefings the day before the plenary session. These briefings will provide you with the opportunity to meet with some of our senior leaders of the various businesses and understand the growth trajectories and the strengths of those businesses in greater detail than we might have shared with you before at these analyst meetings. So thanks again. Look forward to seeing you all in April.

Operator: That does conclude today's conference call. We appreciate your participation. You may disconnect at this time.