VENTAS INC
Form FWP
September 13, 2006

Issuer Free Writing Prospectus filed pursuant to Rule 433 supplementing the Preliminary Prospectus Supplement dated September 12, 2006 and Prospectus dated April 7, 2006

Registration No. 333-133115

September 12, 2006

VENTAS REALTY, LIMITED PARTNERSHIP
VENTAS CAPITAL CORPORATION

$225,000,000 6 3/4% Senior Notes due 2017

Issuers:	Ventas Realty, Limited Partnership and Ventas Capital Corporation
Guarantors:	Ventas, Inc. and each of its current and future Restricted Subsidiaries (other than Excluded Joint Ventures) (as each term is defined in the prospectus supplement) until certain conditions are met.
Principal Amount:	$225,000,000. This represents an increase of $25,000,000 from the aggregate principal amount indicated on the cover page of the preliminary prospectus supplement.
Title of Securities:	6 3/4% Senior Notes due 2017
Final Maturity Date:	April 1, 2017
Public Offering Price:	99.375%
Gross Proceeds:	$223,593,750
Underwriting Discounts:	$2,062,500
Net Proceeds to Issuers before Expenses:	$221,531,250
Net Proceeds to Issuers after Expenses:	$221,231,250
Coupon:	6.750%
Yield:	6.834%
Interest Payment Dates:	April 1 and October 1
Record Dates:	March 15 and September 15
First Interest Payment Date:	April 1, 2007
Equity Clawback:	At any time prior to April 1, 2010, at a redemption price (expressed as a percentage of the principal amount of redeemed notes) of 106.750% plus accrued and unpaid interest.

Optional Redemption: Commencing on or after April 1, 2012, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest if redeemed during the 12-month period beginning on April 1 of each of the years indicated below:

Year	Price
2012	103.375%
2013	102.250%
2014	101.125%
2015 and thereafter	100.000%

Make-Whole Redemption: At any time prior to April 1, 2012, at a redemption price equal to 100% of the notes redeemed plus a make-whole premium calculated using a Reinvestment Rate (as defined in the prospectus supplement) equal to 50 basis points plus the yield on comparable Treasury securities plus accrued and unpaid interest.

Trade Date: September 12, 2006

Settlement Date: September 19, 2006 (T + 5)

Form of Offering: SEC Registered (Registration No. 333-133115)

Joint Book-Running Managers: Banc of America Securities LLC
Citigroup

Estimated Expenses of Offering to Be Paid By Issuers: $300,000

Allocation:

Name	Principal Amount of Notes to Be Purchased
Banc of America Securities LLC	$90,000,000
Citigroup Global Markets Inc.	$45,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	$28,125,000
UBS Securities LLC	$28,125,000
BMO Capital Markets Corp.	$11,250,000
Deutsche Bank Securities Inc.	$11,250,000
KeyBanc Capital Markets, a Division of McDonald Investments Inc.	$11,250,000
Total	$225,000,000

CUSIP: 92276MAT2

ISIN: US92276MAT27

Listing: None

Capitalization: The following table sets forth our cash and cash equivalents and capitalization as of June 30, 2006:

(as of June 30, 2006)

on an actual basis; and

as adjusted to give effect to the sale of the notes offered by this prospectus supplement and the application of the net proceeds therefrom.

	Actual (in thousands)	As Adjusted
Cash	$ 1,932	$ 56,163
Revolving credit facility	$ 167,000	$
Existing senior notes	1,091,038	1,091,038
Senior notes offered hereby		225,000
Other long-term debt	624,871	624,871
Total debt	1,882,909	1,940,909
Total stockholders equity	649,996	649,996
Total capitalization	$2,532,905	$2,590,905

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We expect that delivery of the notes will be made against payment on or about September 19, 2006, which will be the 5th business day following the date of pricing of the notes (such settlement cycle being herein referred to as T + 5). Under Rule 15c6-1 under the Securities Exchange Act of 1934, as amended, or Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the notes initially will settle T + 5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of notes who wish to trade notes on the date of pricing or the next succeeding business day should consult their own advisor.

The issuers have filed a registration statement (including a prospectus) with the SEC for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents the issuers have filed with the SEC for more complete information about the issuers and this offering. You may get these documents free of charge by visiting EDGAR on the SEC Web site at *www.sec.gov*. Alternatively, the issuers, any underwriter or any dealer participating in the offering will arrange to send you the prospectus if you request it by sending an email to dg.prospectus_distribution@bofasecurities.com or calling toll-free 1-800-294-1322.

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p;
Before cumulative effect of change in accounting principle:

Basic
$0.82 $0.48 $0.87 $0.66 $0.58
Diluted
$0.80 $0.46 $0.81 $0.61 $0.53
After cumulative effect of change in accounting principle:

Basic
$0.82 $0.48 $0.84 $0.66 $0.58
Diluted
$0.80 $0.46 $0.79 $0.61 $0.53
Number of weighted average shares outstanding:

Basic
2,584 2,602 2,582 2,536 2,531
Diluted
2,644 2,726 2,746 2,728 2,772
Balance Sheet Data:

Cash and investments
$9,905 $8,287 $7,853 $6,853 $3,181
Total assets
15,470 13,535 13,670 11,560 6,966
Long-term debt
506 520 509 508 512
Total stockholders equity
$4,873 $4,694 $5,622 $5,308 $2,321

(a) Includes a pre-tax charge of $742 million. Approximately $482 million relates to employee termination benefits, facilities closure costs, and other asset impairments and exit costs, while the balance of $260 million relates to other-than-temporary declines in the fair value of

equity securities.

(b) Includes a pre-tax charge of $105 million related to employee termination benefits and facilities closure costs.

(c) Includes a pre-tax charge of $194 million related to a purchase of in-process research and development.

(d) Share and per share information has been restated to reflect 2 for 1 splits of the common stock in March and September 1998, and March 1999.

(e) Effective January 29, 2000, Dell changed its accounting for revenue recognition in accordance with the Securities and Exchange Commission s Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* (SAB 101). The cumulative effect of the change on retained earnings as of the beginning of fiscal 2001 resulted in a charge to fiscal 2001 income of $59 million (net of income taxes of $25 million). With the exception of the cumulative effect adjustment, the effect of the change on net income for the fiscal year ended February 2, 2001 was not material. See Note 1 of Notes to Consolidated Financial Statements included in Item 8 Financial Statements and Supplementary Data.

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ITEM 7 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Description of Business

Dell through its direct business model designs, develops, manufactures, markets, services and supports a wide range of computer systems customized to customer requirements. These include enterprise systems (servers, storage and networking products, and workstations), notebook computers and desktop computer systems, as well as software, peripherals, and service and support programs. Dell is generally managed on a geographic basis: the Americas, Europe and Asia Pacific-Japan. Within the Americas, Dell is further segmented into Business and U.S. Consumer. Dell markets and sells its computer products and services under the Dell brand name directly to its various customer groups. These customer groups include large corporate, government, healthcare and education accounts, as well as small-to-medium businesses and individual consumers. For a discussion of Dell s reportable segments, see Note 9 of Notes to Consolidated Financial Statements included in Item 8 Financial Statements and Supplementary Data. The following discussion should be read in conjunction with the Consolidated Financial Statements, including the related notes. All market share references included in this discussion are according to IDC.

Dell s objective is to maximize stockholder value by executing a strategy based upon the direct model that focuses on a balance of three priorities: liquidity, profitability and growth. The direct model enables Dell to provide customers with superb value; high-quality, relevant technology; customized systems; superior service and support; and products and services that are easy to buy and use. Management believes that opportunity exists for continued worldwide growth by increasing Dell s market presence in its existing markets, entering new markets, and pursuing additional product and service opportunities.

Fiscal 2003 Overview

Dell achieved industry-leading results and profitably grew market share in fiscal 2003 with record unit shipments, revenues and operating income dollars. Year-over-year unit shipments increased 21% while industry shipments declined 1% (excluding Dell), resulting in market share gains in every region and product line. Dell s annual market share gain of 2.3 points worldwide was one of the best in the company s history. Dell generated record net revenue of $35.4 billion, and achieved operating income of approximately $2.8 billion, whereas its top competitors collectively continued to experience declining revenues and operating losses in their personal computer systems and related businesses. In addition to maximizing profitability and growth, Dell delivered outstanding liquidity during the fiscal year with operating cash flow of $3.5 billion and a company record $9.9 billion in ending cash and investments. Dell also exited fiscal 2003 with a record low cash conversion cycle of negative 37 days.

Dell achieved these strong financial results in fiscal 2003 despite continued weak technology spending brought about by a soft global economic environment. Dell responded to these market conditions as it has previously by delivering award-winning products and services with leadership pricing to maximize market share growth and to realize as much profit as possible in light of existing conditions. Dell also expanded more broadly and deeply into the enterprise by launching the second generation Dell y EMC product line; significantly increasing the number of installations of high performance computing clusters; further developing relationships with other strategic partners; and improving professional services offerings. In executing its strategy, Dell leveraged its low-cost structure and efficient direct-to-customer model to aggressively price all products and pass through declining component prices and structural savings to its customers. Dell s continued focus on cost control resulted in record low operating expenses in fiscal 2003 as a percentage of revenue as well as improved operating margins. Management believes that Dell s continued industry-leading operating results validate that the Dell model excels in any macro-economic environment and that by

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maintaining its strategy of profitable market share growth with a focus on improving overall profitability, Dell will continue to outperform the industry in any economic environment.

Results of Operations

The following table summarizes the results of Dell s operations for each of the past three fiscal years. All percentage amounts were calculated using the underlying data in thousands.

	Fiscal Year Ended				
	January 31, 2003	**Percentage Change**	**February 1, 2002**	**Percentage Change**	**February 2, 2001**
			(dollars in millions)		
Net revenue	$35,404	14%	$31,168	(2)%	$31,888
Gross margin	$ 6,349	15%	$ 5,507	(15)%	$ 6,443
% of net revenue	17.9%		17.7%		20.2%
Operating expenses	$ 3,505	8%	$ 3,236	(12)%	$ 3,675
% of net revenue	9.9%		10.4%		11.5%
Special charges			$ 482		$ 105
Total operating expenses	$ 3,505	(6)%	$ 3,718	(2)%	$ 3,780
% of net revenue	9.9%		11.9%		11.8%
Operating income	$ 2,844	59%	$ 1,789	(33)%	$ 2,663
% of net revenue	8.0%		5.8%		8.4%
Net income	$ 2,122	70%	$ 1,246	(43)%	$ 2,177
% of net revenue	6.0%		4.0%		6.8%

During fiscal 2003, Dell continued to execute its profitable market share growth strategy and achieved record unit shipments, net revenue and operating income despite a difficult industry and macro-economic environment. Management s relentless focus on cost improvements resulted in improved gross and operating margins compared to fiscal 2002 even though average revenue per unit declined over the same period as Dell passed on substantially all component cost declines to its customers. By maintaining its strategy of profitable market share growth, with a focus on improving overall profitability, management currently expects to continue to capitalize on market opportunities.

Net Revenue

The following table summarizes Dell s net revenue by geographic region for each of the past three fiscal years:

	Fiscal Year Ended				
	January 31, 2003	**Percentage Change**	**February 1, 2002**	**Percentage Change**	**February 2, 2001**
			(dollars in millions)		
Net Revenue:					
Americas:					
Business	$19,394	12%	$17,275	(9)%	$18,969
U.S. Consumer	5,653	26%	4,485	15%	3,902
Total Americas	25,047	15%	21,760	(5)%	22,871
Europe	6,912	8%	6,429		6,399
Asia Pacific-Japan	3,445	16%	2,979	14%	2,618
Consolidated net revenue	$35,404	14%	$31,168	(2)%	$31,888

During fiscal 2003, Dell generated record net revenue and unit shipments even though the global economy remained soft impacting capital spending and overall industry demand. Dell achieved this growth, among other things, by continuing to focus on geographic expansion, by expanding customer-focused product and service offerings, and by offering a superior value proposition to its

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customers. Net unit shipments grew 21% for fiscal 2003 compared to an industry decline of 1% (excluding Dell) in calendar year 2002, and grew 15% in fiscal 2002 compared to an industry decline of 7% (excluding Dell) in calendar year 2001. Dell s market share gain of 2.3 points worldwide in fiscal 2003 was one of the best in Dell s history.

Dell s shipments of enterprise systems, which include servers, storage and networking products, and workstations, grew 21% during fiscal 2003. Dell continues to focus on extending its capabilities in enterprise systems. Revenues from these products increased 19% during fiscal 2003 over fiscal 2002 levels and resulted in a No. 1 U.S. and No. 2 worldwide ranking in server shipments for calendar 2002. Dell has introduced new products, such as through its long-term strategic alliance with EMC Corporation (which enables Dell to address a broad range of customer needs with storage products that provide additional enterprise-class features), and has expanded its enterprise-level professional services and support offerings (such as Dell Professional Services and Premier Enterprise Services). In addition, Dell continues the trend of increasing the portion of its research, development and engineering expenses spent on enterprise systems.

Notebook computer unit shipments increased 20% during fiscal 2003 as Dell ranked No. 1 in the U.S. Desktop computer unit shipments increased 22% in fiscal 2003 as Dell extended its lead as the No. 1 supplier of desktops in the U.S. Unit shipments grew during fiscal 2002 across all product lines as well: enterprise systems at 26%, notebooks at 20% and desktops at 14%.

Average revenue per-unit sold in fiscal 2003 decreased 7% compared to fiscal 2002, which was primarily due to component cost declines and Dell s practice of aggressively passing on these declines to customers to increase market share. Management currently expects that average revenue per unit will continue to decline at a moderate rate as technology spending remains soft and component cost declines continue at historical rates. However, Dell will adjust its pricing as necessary in response to future economic and competitive conditions. Average revenue per unit sold in fiscal 2002 decreased 15% compared to fiscal 2001, which was primarily due to aggressive pricing across all product lines in addition to Dell passing component cost declines through to its customers.

In fiscal 2003, net revenue increased 14% as compared to fiscal 2002 to a record $35.4 billion. Strong growth in net unit shipments across all regions and products drove the revenue increase, which was somewhat offset by lower average selling prices. Fiscal 2002 net revenue was 2% lower than fiscal 2001 as declines in average per-unit revenues more than offset growth in net unit shipments.

On a geographic basis, Dell extended its No. 1 share ranking in the U.S. and the Americas overall with a 15% net revenue increase in fiscal 2003 as compared to fiscal 2002. Americas net revenue decreased 5% from fiscal 2001 to fiscal 2002. In the Business segment, net revenue increased 12% in fiscal 2003 as compared to a 9% decline in fiscal 2002 as technology spending stabilized. Net revenue in the U.S. Consumer segment grew 26% in fiscal 2003 and 15% in fiscal 2002, as Dell successfully drove substantial market share gains as compared to the industry.

In Europe, Dell continued to take share and maintained its No. 2 overall market share position as net unit shipments increased across all product lines. Net revenue for fiscal 2003 increased 8% as compared to fiscal 2002, driven primarily by strong unit growth during the third and fourth quarters which was partially offset by declining average per-unit revenues. Net revenue for fiscal 2002 was relatively flat as compared to fiscal 2001, as declining average per-unit revenues offset unit growth due to weak demand and economic softness.

Net revenue in Asia Pacific-Japan increased 16% in fiscal 2003 as compared to fiscal 2002. Dell gained share throughout the year (exiting fiscal 2003 with the No. 3 share ranking for the region compared to No. 6 the prior year) despite inconsistent market demand in the region during fiscal 2003. Asia Pacific-Japan s growth in net revenue from fiscal 2001 to fiscal 2002 was 14%, despite

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weakened economies in many countries in the region. In both Japan and China, Dell is now the leading non-domestic seller of computer systems.

For additional information regarding Dell s segments, see Note 9 of Notes to Consolidated Financial Statements included in Item 8 Financial Statements and Supplementary Data.

Gross Margin

Gross margin as a percentage of net revenue increased from 17.7% in fiscal 2002 to 17.9% in fiscal 2003. Gross margin increased across all geographies and product categories primarily as a result of Dell s cost reduction initiatives and declining component costs. As part of its focus on improving margins, Dell remains committed to reducing costs to maintain price leadership and improve profitability through four primary cost reduction initiatives: manufacturing costs, warranty costs, structural or design costs, and overhead or operating expenses.

Based on the industry, economic and other factors discussed above, Dell currently expects that this gross margin environment will continue to be challenging, but Dell s intent is to focus on improving gross margins and operating margins as the economy improves. Management believes that the strength of Dell s direct-to-customer business model, as well as its strong liquidity position, makes Dell better positioned than its competitors to profitably grow market share in any business climate.

As a percentage of consolidated net revenue, gross margin decreased from 20.2% in fiscal 2001 to 17.7% in fiscal 2002. This erosion began in the fourth quarter of fiscal 2001, when Dell saw industry demand starting to decline and began an aggressive pricing strategy to gain market share and maximize profitability. Throughout fiscal 2002, Dell focused on stabilizing and improving net operating margins. The year-to-year decrease occurred primarily as a result of Dell s strategy to drive profitable market share growth.

Operating Expenses

The following table presents certain information regarding Dell s operating expenses during each of the past three fiscal years:

	Fiscal Year Ended		
	January 31, 2003	**February 1, 2002(a)**	**February 2, 2001(b)**
		(dollars in millions)	
Operating Expenses:			
Selling, general and administrative	$3,050	$2,784	$3,193
% of net revenue	8.6%	8.9%	10.0%
Research, development and engineering	$ 455	$ 452	$ 482
% of net revenue	1.3%	1.5%	1.5%
Special charges		$ 482	$ 105
% of net revenue		1.5%	0.3%
Total operating expenses	$3,505	$3,718	$3,780
Percentage of net revenue	9.9%	11.9%	11.8%

(a) The $482 million special charge relates to employee termination benefits, facilities closure costs, and other asset impairments and exit costs.

(b) The $105 million special charge relates to employee termination benefits and facilities closure costs.

Selling, general and administrative expenses decreased as a percentage of revenue during fiscal 2003 as compared to fiscal 2002 primarily as a result of the previously referred to cost savings initiatives, including providing certain customer technical support and back-office functions from low-cost sites and driving more efficient processes and tools. As a result of these initiatives and managing expenses relative to actual revenue growth rates, selling, general and administrative

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expenses as a percentage of net revenue declined to 8.6% in fiscal 2003, down from 8.9% in fiscal 2002, and down from 10.0% in fiscal 2001.

Dell continues to invest in research, development and engineering activities to develop and introduce new products. During fiscal 2003, research, development and engineering expenses increased slightly in absolute dollar amounts as compared to fiscal 2002 as Dell managed its spending in light of current industry conditions. Research, development, and engineering expenses were relatively flat as a percentage of revenue from fiscal 2003 to fiscal 2002. Dell expects to continue to invest in research, development and engineering activity, with an increasing emphasis on enterprise products. Dell has received 867 U.S. patents and has applied for an additional 562 patents.

During fiscal years 2001 and 2002, Dell undertook two separate actions to reduce its workforce and exit certain activities to align its cost structure with ongoing economic and industry conditions. Special charges of $105 million and $482 million related to these actions were recorded in operating expenses in the fourth quarter of fiscal 2001 and the second quarter of fiscal 2002, respectively. As part of these actions, Dell eliminated approximately 5,700 employee positions worldwide from various business functions and job classes.

As a result of these actions, the employee separations charge during fiscal 2002 was $91 million, $41 million and $2 million in the Americas, Europe and Asia Pacific-Japan segments, respectively. The facility consolidations charge in the Americas, Europe and Asia Pacific-Japan segments amounted to $80 million, $76 million and $13 million, respectively. Non-cash charges consisted primarily of buildings being exited, as well as equipment, technology/ software developed or purchased for internal use, and other assets being abandoned or disposed of as part of these actions. This included $75 million to write off goodwill and substantially all intellectual property associated with the fiscal 2000 acquisition of ConvergeNet Technologies, Inc. (ConvergeNet) due to Dell s decision to discontinue the development of ConvergeNet s proprietary storage technology.

Under a separate program during the fourth quarter of fiscal 2001, Dell reduced its workforce and exited certain facilities, resulting in a charge of $105 million consisting of approximately $50 million in employee termination benefits and the remainder relating to facilities closure costs.

A summary of the fiscal 2001 and 2002 charges, and subsequent activity through fiscal 2003, is as follows (in millions):

	Total Charge	Cumulative Payments	Non-Cash Charges	Liability at January 31, 2003
Employee separations	$184	$(184)	$	$
Facility consolidations	224	(130)	(79)	15
Other asset impairments and exit costs	179	(27)	(152)	
Total	$587	$(341)	$(231)	$ 15

During fiscal 2003, Dell made charge-related payments totaling $161 million. As of January 31, 2003, the remaining accrual relates to net lease expenses that will be paid over the respective lease terms through fiscal 2006.

Annual savings from these two programs were nearly $500 million which were realized during fiscal 2003 and 2002 in reduced selling, general and administrative expenses as a percentage of net revenue (as reflected in the operating expenses table on the prior page) and a portion was reinvested via pricing and selling incentives to support continued unit growth. Dell 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.

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Investment and Other Income (Loss), net

The following table summarizes Dell s investment and other income (loss), net for each of the past three fiscal years:

	Fiscal Year Ended		
	January 31, 2003	February 1, 2002	February 2, 2001
		(in millions)	
Gains/(losses) on investments, net	$ 67	$(277)	$307
Investment income, primarily interest	154	314	305
Interest expense	(17)	(29)	(47)
Other	(21)	(66)	(34)
Investment and other income (loss), net	$183	$ (58)	$531

The fiscal 2002 loss includes a $260 million impairment charge in the second quarter for other-than-temporary declines in fair value of its venture investments due to ongoing market conditions as well as the investees inability to execute their business plans. Excluding the effect of the impairment charge, the decrease of investment and other income (loss), net, during fiscal 2003 and fiscal 2002 was due primarily to declining interest rates and fewer realized investment gains in Dell s private and public equity securities portfolio.

Income Taxes

Dell s effective tax rate was 29.9% for fiscal 2003 compared to 28.0% for fiscal 2002 and 30.0% for fiscal 2001. Differences between the effective tax rate as compared to the prior year and as compared to the U.S. federal statutory rate of 35% principally result from Dell s geographical distribution of taxable income and losses and certain non-tax deductible charges.

Liquidity, Capital Commitments and Other Financing Arrangements

Liquidity

The following table presents selected financial statistics and information for each of the past three fiscal years:

	Fiscal Year Ended		
	January 31, 2003	February 1, 2002	February 2, 2001
		(dollars in millions)	
Cash and investments	$9,905	$8,287	$7,853
Days of sales outstanding	28	29	32
Days of supply in inventory	3	4	5
Days in accounts payable	68	69	58
Cash conversion cycle	(37)	(36)	(21)

(a) Days of sales outstanding include the effect of product costs related to in-transit customer shipments (arising from the adoption of SAB 101) that are classified in other current assets. At January 31, 2003, February 1, 2002, and February 2, 2001, days of sales

outstanding included days of sales in accounts receivable and days of in-transit customer shipments of 24 and 4 days; 25 and 4 days; and 27 and 5 days, respectively.

During fiscal 2003, Dell continued to generate substantial operating cash flows relative to earnings. Cash flows from operating activities represent Dell s principal source of cash and during fiscal 2003, 2002 and 2001 were $3.5 billion, $3.8 billion and $4.2 billion, respectively. Cash flows from operating activities resulted primarily from net income, improvements in Dell s cash conversion cycle and income tax benefits. These tax benefits totaled $260 million, $487 million, and $929 million in fiscal 2003, 2002, and 2001, respectively, and resulted from the exercise of employee stock options.

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These benefits represent corporate tax deductions (that are considered taxable income to the employee) that represent the amount by which the fair value of Dell s stock exceeds the option strike price on the day the employee exercises an option, that reduce Dell s taxes payable, and that under generally accepted accounting principles are recorded directly to stockholders equity accounts rather than to earnings.

Dell ended fiscal 2003 with a record $9.9 billion in cash and investments, an increase of $1.6 billion over the prior year level. Dell invests a large portion of its available cash in highly liquid/highly rated government, agency, and corporate debt securities of varying maturities at the date of acquisition. Dell s investment policy is to manage its investment portfolio to preserve principal and maintain liquidity while maximizing the return on the investment portfolio through the full investment of available funds. As of January 31, 2003, and February 1, 2002, Dell had $7.9 billion and $6.7 billion, respectively, invested in these securities. Additionally, Dell invests in equity securities of various private and public entities in order to enhance and extend Dell s strategic initiatives. At January 31, 2003 and February 1, 2002, these equity investments totaled $196 million and $289 million, respectively. The amount of unrealized net appreciation included in these balances was not material.

During fiscal 2003, Dell continued to improve upon its efficient asset management. As compared to fiscal 2002, days of sales outstanding and days of supply in inventory each improved by one day resulting in a Dell record of 28 and 3, respectively. Days in accounts payable decreased by one day. As a result, Dell s cash conversion cycle improved to a negative 37 days in fiscal 2003 from a negative 36 days in fiscal 2002. As also discussed in Note 1 of the Notes to Financial Statements included in Item 8 Financial Statements and Supplementary Data, Dell adopted SAB 101 in fiscal 2001, resulting in a change in method of recognizing product revenue from when shipped to when received by the customer. SAB 101 indicates that both title and risk of loss on products must pass to the customer before revenue can be recognized. Title passes to Dell s customers on substantially all products when they are shipped. Risk of loss, however, generally doesn t pass to the customer until delivery. Dell defers the cost of revenue associated with these in-transit customer shipments in other current assets in its Consolidated Statement of Financial Position until they are delivered and revenue is recognized. These deferred costs are included in reported days of sales outstanding above because management believes that including the effect of the deferred costs yields a more conservative presentation that is consistent with previously reported days of sales outstanding data for periods prior to the adoption of SAB 101.

Dell has historically generated annual cash flows from operating activities in amounts greater than net income, driven mainly by continually improving cash conversion cycle metrics and the aforementioned tax benefits. Management currently believes that the fiscal 2004 cash flows from operations will continue to exceed net income. Management believes that Dell s cash provided from operations will continue to be strong and be more than sufficient to support its operations and capital requirements, even if the economic downturn should continue or accelerate. Dell currently anticipates that it will continue to utilize its strong liquidity and cash flows to repurchase its common stock, make a limited number of strategic equity investments, consider and possibly make acquisitions, and invest in systems and processes, as well as invest in the development and growth of its enterprise products.

Capital Commitments

Share Repurchase Program Dell has a share repurchase program that authorizes the purchase of up to 1.25 billion shares of common stock to manage the dilution resulting from shares issued under Dell s employee stock plans. As of the end of fiscal 2003, Dell had cumulatively repurchased 991 million shares for an aggregate cost of approximately $12 billion. During fiscal 2003, Dell repurchased 50 million shares of common stock for an aggregate cost of $2.3 billion. Dell historically utilized equity instrument contracts to facilitate its repurchase of common stock; however, all remaining put and call contracts were settled in full during fiscal 2003. Consequently, no equity instrument contracts remain outstanding related to Dell s share repurchase program. Dell expects to

continue to repurchase shares of common stock through a systematic program of open market purchases that will return cash to stockholders and mitigate dilution. For the first quarter of fiscal 2004, Dell expects to spend approximately $500 million repurchasing shares.

Capital Expenditures Dell spent approximately $300 million on capital projects during fiscal 2003. Product demand and mix, as well as ongoing efficiencies in operating and information technology infrastructure, influence the level and prioritization of Dell s capital expenditures. Cash flows for similar capital expenditures for fiscal 2004 are currently expected to also be approximately $300 million.

Long Term Debt As of January 31, 2003, Dell had outstanding $200 million in Senior Notes due April 15, 2008 and $300 million in Senior Debentures due April 15, 2028. For additional information regarding these issuances, see Note 2 of Notes to Consolidated Financial Statements included in Item 8 Financial Statements and Supplementary Data.

Concurrent with the issuance of the Senior Notes and Senior Debentures, Dell entered into interest rate swap agreements converting Dell s interest rate exposure from a fixed rate to a floating rate basis to better align the associated interest rate characteristics to its cash and investments portfolio. The interest rate swap agreements have an aggregate notional amount of $200 million maturing April 15, 2008 and $300 million maturing April 15, 2028. The floating rates are based on three-month London Interbank Offered Rates (LIBOR) plus 0.41% and 0.79% for the Senior Notes and Senior Debentures, respectively. As a result of the interest rate swap agreements, Dell s effective interest rates for the Senior Notes and Senior Debentures were 2.365% and 2.698%, respectively, for fiscal 2003.

Lease Commitments, including Master Lease Facilities Dell maintains master lease facilities providing the capacity to fund up to $1.1 billion. The combined facilities provide for the ability of Dell to lease certain real property, buildings and equipment (collectively referred to as the Properties) to be constructed or acquired. At January 31, 2003, $640 million of the combined facilities had been utilized.

As described in Note 1 of Notes to Consolidated Financial Statements included in Item 8 Financial Statements and Supplementary Data, Dell will be required to consolidate its master lease facilities effective during the third quarter of fiscal year 2004. However, prior to the effective date of FASB Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities (VIE),* Dell expects to expend approximately $640 million to acquire the assets held in master lease facilities. Should the assets not be acquired, Dell s obligation under the terms of its lease agreements will continue as described in Note 6 of Notes to Consolidated Financial Statements included in Item 8 Financial Statements and Supplementary Data.

As part of the above lease transactions, Dell restricted $94 million of its investment securities as collateral for specified lessor obligations under the leases as of January 31, 2003. These investment securities are restricted as to withdrawal and are managed by third parties subject to certain limitations under Dell s investment policy and are included in Investments on the accompanying Consolidated Statement of Financial Position included in Item 8 Financial Statements and Supplementary Data. In addition, as part of these lease agreements Dell must meet certain financial covenant requirements. Dell is in compliance with all such covenants.

Dell leases other property and equipment, manufacturing facilities and office space under non-cancelable leases. Certain leases obligate Dell to pay taxes, maintenance and repair costs. Future minimum lease payments under all non-cancelable leases (excluding the master lease facilities described above) as of January 31, 2003 are as follows: $45 million in fiscal 2004; $35 million in fiscal 2005; $21 million in fiscal 2006; $15 million in fiscal 2007; $14 million in fiscal 2008; and $44 million thereafter. Rent expense under all leases totaled $96 million, $93 million, and $95 million for fiscal 2003, 2002, and 2001, respectively.

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The following summarizes Dell s contractual cash obligations as of January 31, 2003.

	Payments Due by Period				
	Total	Fiscal 2004	Fiscal 2005-2006	Fiscal 2007-2008	Beyond
			(in millions)		
Operating leases	$ 174	$ 45	$ 56	$ 29	$ 44
Master lease facilities(a)	550	163	309	78	
Long-term debt, including current portion	515	9	4	3	499
Total contractual cash obligations	$1,239	$217	$369	$110	$543

(a) Obligations under master lease facilities include residual value guarantees of up to $161 million in fiscal 2004, $306 million in fiscal 2006, and $77 million in fiscal 2008.

Other Financing Arrangements

Dell Financial Services Dell is currently a partner in Dell Financial Services L.P. (DFS), a joint venture with CIT Group, Inc. (CIT). The joint venture allows Dell to provide customers with various financing alternatives and asset management services as a part of the total service package offered to the customer. CIT, as a financial services company, is the entity that finances the transaction between DFS and the customer.

Dell may sell equipment directly to customers who, in turn, enter into loans with DFS to finance their purchases. Dell recognized revenue on equipment sold to end-user customers which was financed with DFS loans in the amount of $2.3 billion, $1.3 billion and $0.7 billion during fiscal 2003, 2002 and 2001, respectively. In addition, when Dell s customers desire lease financing, Dell usually sells equipment to DFS, and DFS will enter into direct financing lease arrangements with the customers. Dell recognizes revenue from the sale of equipment to DFS in accordance with Dell s revenue recognition policy (see Note 1 of Notes to Consolidated Financial Statements included in Item 8 Financial Statements and Supplementary Data) because leases between DFS and the customer qualify as direct financing leases. Dell recognized revenue on sales to DFS in the amount of $1.2 billion, $1.4 billion and $1.8 billion during fiscal 2003, 2002 and 2001, respectively. Neither CIT nor DFS has any recourse or rights of return to Dell, except that end-user customers may return equipment pursuant to Dell s standard return policy. Dell receives a referral fee from DFS for introducing customers to DFS for financing alternatives. Such fees were $70 million, $70 million and $66 million in fiscal 2003, 2002 and 2001, respectively, and are included in net revenue.

In accordance with the partnership agreement between Dell and CIT, losses generated by DFS are allocated to CIT. Net income in DFS is allocated 70% to Dell and 30% to CIT, after CIT has recovered any cumulative losses. Dell s share of DFS net income is reflected in investment and other income, net. Dell has recognized approximately $4 million of cumulative pre-tax earnings as of the end of fiscal 2003. In the event DFS is terminated with a cumulative deficit, Dell is not obligated to fund any losses. Although Dell has a 70% equity interest in DFS, because Dell cannot and does not exercise voting or operational control over DFS, the investment is accounted for under the equity method. Dell s investment in DFS at January 31, 2003 was $35 million. Equity income in DFS and any intercompany balances were immaterial to Dell s results of operations and financial position for fiscal 2003, 2002 and 2001. Had Dell controlled and as a result consolidated DFS, the impact to Dell s reported revenue and earnings would not have been material for fiscal 2003, 2002 and 2001.

Although Dell has no economic exposure to the existing assets and liabilities of DFS, should the joint venture experience an interruption in operations, Dell would likely have to find alternative sources for future financing arrangements with its customers. Alternatives could include negotiating a financing arrangement with another entity or Dell s financing customer purchases itself. Absent such an alternative financing arrangement, Dell could experience reductions in revenues due to losses in

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originations of financing arrangements. Currently, Dell does not anticipate any such interruption in DFS operations.

DFS was formed in 1998 by Dell and Newcourt Credit Group, Inc. (Newcourt). In fiscal 2000, Newcourt was acquired by CIT and in fiscal 2002, CIT was acquired by Tyco International, Inc. (Tyco). In July 2002, Tyco spun off CIT as an independent company and, as a result, CIT became Dell s partner in DFS.

Market Risk

Dell is exposed to a variety of risks, including foreign currency exchange rate fluctuations and changes in the market value of its investments. In the normal course of business, Dell employs established policies and procedures to manage these risks.

Foreign Currency Hedging Activities

Dell s objective in managing its exposure to foreign currency exchange rate fluctuations is to reduce the impact of adverse fluctuations on earnings and cash flows associated with foreign currency exchange rate changes. Accordingly, Dell utilizes foreign currency option contracts and forward contracts to hedge its exposure on forecasted transactions and firm commitments in most of the foreign countries in which Dell operates. The principal currencies hedged during fiscal 2003 were the Euro, British Pound, Japanese Yen, and Canadian Dollar. Dell monitors its foreign currency exchange exposures to ensure the overall effectiveness of its foreign currency hedge positions. However, there can be no assurance Dell s foreign currency hedging activities will substantially offset the impact of fluctuations in currency exchange rates on its results of operations and financial position.

Based on Dell s foreign currency cash flow hedge instruments outstanding at January 31, 2003, Dell estimates a maximum potential one-day loss in fair value of approximately $30 million, using a Value-at-Risk (VAR) model. The VAR model estimates were made assuming normal market conditions and a 95% confidence level. Dell used a Monte Carlo simulation type model that valued its foreign currency instruments against a thousand randomly generated market price paths. Forecasted transactions, firm commitments, fair value hedge instruments, and accounts receivable and payable denominated in foreign currencies were excluded from the model. The VAR model is a risk estimation tool, and as such, is not intended to represent actual losses in fair value that will be incurred by Dell. Additionally, as Dell utilizes foreign currency instruments for hedging forecasted and firmly committed transactions, a loss in fair value for those instruments is generally offset by increases in the value of the underlying exposure. As a result of Dell s hedging activities, foreign currency fluctuations did not have a material impact on Dell s results of operations and financial position during fiscal 2003, 2002, and 2001.

Cash and Investments

At January 31, 2003, Dell had $9.9 billion of total cash and investments (including investments in equity securities discussed below), all of which are stated at fair value. Dell s investment policy is to manage its total cash and investments balances to preserve principal and liquidity while maximizing the return on the investment portfolio through the full investment of available funds. Dell diversifies its investment portfolio by investing in multiple types of investment-grade securities and through the use of third-party investment managers. Based on Dell s investment portfolio and interest rates at January 31, 2003, a 100 basis point increase or decrease in interest rates would result in a decrease or increase of approximately $100 million, respectively, in the fair value of the investment portfolio. Changes in interest rates may affect the fair value of the investment portfolio; however, Dell will not recognize such gains or losses unless the investments are sold.

At January 31, 2003, the fair value of investments in equity securities of privately and publicly held technology companies was $196 million. These investments were made in order to enhance and

extend Dell s direct business model and core business initiatives. Because these companies are typically early-stage companies with products or services that are not yet fully developed or that have not yet achieved market acceptance, these investments are inherently risky. Dell currently anticipates that it will continue to make minimal additional investments in fiscal 2004 and will focus on managing its current investments.

Debt

Dell has entered into interest rate swap arrangements that convert its fixed interest rate expense to a floating rate basis to better align the associated interest rate characteristics to its cash and investments portfolio. The interest rate swaps qualify for hedge accounting treatment pursuant to SFAS 133. Dell has designated the issuance of the Senior Notes and Senior Debentures and the related interest rate swap agreements as an integrated transaction. The difference between Dell s carrying amounts and fair value of its long-term debt and related interest rate swaps was not material at January 31, 2003 and February 1, 2002. The differential to be paid or received on the interest rate swap agreements is accrued and recognized as an adjustment to interest expense as interest rates change.

Factors Affecting the Company s Business and Prospects

There are numerous factors that affect Dell s business and the results of its operations. These factors include general economic and business conditions; the level of demand for Dell s products and services; the effect of armed hostilities, terrorism or public health issues on the economy generally, on the level of demand for Dell s products and services, and on Dell s ability to manage its supply and delivery logistics in such an environment; the level and intensity of competition in the technology industry and the pricing pressures that have resulted; the ability of Dell to timely and effectively manage periodic product transitions, as well as component availability and cost; the ability of Dell to develop new products based on new or evolving technology and the market s acceptance of those products; the ability of Dell 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; and Dell s ability to effectively manage its operating costs. For a discussion of these and other factors affecting Dell s business and prospects, see Item 1 Business Factors Affecting Dell s Business and Prospects.

Critical Accounting Policies

Dell prepares its financial statements in conformity with generally accepted accounting principles in the U.S. Dell believes its most critical accounting policies relate to revenue recognition and warranty accruals. These and Dell s other accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in Item 8 Financial Statements and Supplementary Data. In applying its critical accounting polices, Dell is required to make accounting estimates to determine and accrue costs that may be incurred in the future.

Revenue Recognition Many customer arrangements encompass multiple elements, such as hardware, software and peripherals and services. As a result, interpretation is required to ensure appropriate application of accounting principles, including price allocation among multiple deliverables, determination of whether undelivered elements are essential to the functionality of delivered elements, and timing of revenue recognition. Dell offers separately priced extended warranty and service contracts to customers that extend and/or enhance the technical support, parts, and labor coverage offered as part of the base warranty included with the product. Revenue (net of estimated costs to be incurred) related to separately priced extended warranty and service contracts for which Dell is obligated to perform is recorded as deferred income and subsequently recognized on a gross basis over the term of the contract. Revenue from sales of separately priced third party extended warranty and service contracts for which Dell is not obligated to perform is recognized on a net basis at the time of sale.

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Dell s estimates further impacting revenue recognition relate primarily to customer returns and allowance for doubtful accounts. Both estimates are relatively predictable based on historical experience. The primary factors affecting Dell s accrual for estimated customer returns include estimated return rates as well as the number of units shipped that still have rights of return as of the balance sheet date. Customer returns historically have represented approximately 2% of gross revenues. Factors affecting Dell s allowance for doubtful accounts include historical and anticipated customer default rates at the various aging categories of accounts receivable. Each quarter, Dell reevaluates its estimates to assess the adequacy of its recorded accruals for customer returns and allowance for doubtful accounts and adjusts the amounts as necessary.

Warranty Dell records warranty liabilities for the estimated costs that may be incurred under its basic limited warranty as well as under separately priced extended warranty and service contracts for which Dell is obligated to perform. These liabilities are accrued at the time product revenue is recognized. The specific warranty terms and conditions vary depending upon the product sold and country in which Dell does business, but generally includes technical support, repair parts and labor and a period ranging from 90 days to three years. Factors that affect Dell s warranty liability include the number of installed units currently under warranty, historical and anticipated rates of warranty claims on those units and cost per claim to satisfy Dell s warranty obligation. The anticipated rate of warranty claims is the primary factor impacting Dell s estimated warranty obligation. The other factors are relatively insignificant because the average remaining aggregate warranty period of the covered installed base is approximately 20 months, repair parts are generally already in stock or available at pre-determined prices, and labor rates are generally arranged at pre-established amounts with service providers. Warranty claims are relatively predictable based on historical experience of failure rates. Each quarter, Dell reevaluates its estimates to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Recently Issued Accounting Pronouncements

In June 2002, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS 146 provides guidance on the accounting for recognizing, measuring and reporting of costs associated with exit and disposal activities, including restructuring activities. SFAS 146 adjusts the timing of when a liability for termination benefits is to be recognized based on whether the employee is required to render future service. A liability for costs to terminate an operating lease or other contract before the end of its term is to be recognized when the entity terminates the contract or ceases using the rights conveyed by the contract. All other costs associated with an exit or disposal activity are to be expensed as incurred. SFAS 146 requires the liability to be measured at its fair value with subsequent changes in fair value to be recognized each reporting period utilizing an interest allocation approach. The pronouncement is effective for exit or disposal activities initiated after December 31, 2002 and is not expected to have a material impact on Dell s consolidated results of operations or financial position.

In November 2002, the Emerging Issues Task Force (EITF) reached a consensus regarding EITF Issue 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*. The consensus addresses not only when and how an arrangement involving multiple deliverables should be divided into separate units of accounting but also how the arrangement s consideration should be allocated among separate units. The pronouncement is effective for Dell commencing with its fiscal year 2004 and is not expected to have a material impact on Dell s consolidated results of operations or financial position.

In November 2002, FASB issued Interpretation No. 45 (FIN 45), *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.* FIN 45 requires certain guarantees to be measured at fair value upon issuance and recorded as a liability. In addition, FIN 45 expands current disclosure requirements regarding guarantees issued by an entity, including tabular presentation of the changes affecting an entity s aggregate product warranty liability. The recognition and measurement requirements of the interpretation are effective

prospectively for guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for Dell commencing in its annual financial statements for the fiscal year ended January 31, 2003 (see Note 6 of the Notes to Consolidated Financial Statements included in Item 8 Financial Statements and Supplementary Data for product warranty information). Dell does not expect FIN 45 to have a material impact on its consolidated results of operations or financial position.

In December 2002, the FASB issued SFAS 148, *Accounting for Stock-Based Compensation-Transition and Disclosure, an Amendment of FASB Statement No. 123*. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends certain provisions of SFAS 123 to require that disclosure of the pro forma effect of applying the fair value method of accounting for stock-based compensation be prominently displayed in an entity s accounting policy in annual and interim financial statements. Dell is required to follow the prescribed format and provide the additional disclosures required by SFAS 148 in its annual financial statements for the fiscal year ended January 31, 2003, and must also provide the disclosures in its quarterly reports containing condensed financial statements for interim periods beginning with the quarterly period ending May 1, 2003. Dell does not expect SFAS 148 to have a material impact on its consolidated results of operations or financial position.

In January 2003, the FASB issued FIN 46, *Consolidation of Variable Interest Entities (VIE)*. FIN 46 requires that if a company holds a controlling financial interest in a VIE, the assets, liabilities and results of the VIE s activities should be consolidated in the entity s financial statements. As a result, Dell will be required to consolidate its existing master lease facilities effective during the third quarter of fiscal year 2004. Dell expects to expend approximately $640 million to acquire the assets held in master lease facilities. Dell is currently assessing the impact that FIN 46 may have on its accounting for DFS, but does not believe that consolidation will be required.

In January 2003, the Securities and Exchange Commission (SEC) issued a final rule requiring enhanced disclosure of material off-balance sheet transactions, arrangements, and other relationships with unconsolidated entities that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenue or expenses. The rule also requires a tabular disclosure of future payments due under contractual commitments. The disclosure requirements will become effective for Dell s fiscal 2004 annual report. Dell does not expect this pronouncement to have a material impact on its consolidated results of operations or financial position.

In January 2003, the EITF released Issue No. 02-16, *Accounting by a Customer (including a Reseller) for Cash Consideration Received from a Vendor,* guiding the timing and manner in which customers should recognize consideration (e.g., rebates) received from vendors. Such consideration is generally presumed to represent a reduction of a vendor s prices and should therefore be classified as a reduction of cost of revenue. Dell does not expect EITF 02-16 to have a material impact on its consolidated results of operations or financial position.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Response to this item is included in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Market Risk.

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ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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All other schedules are omitted because they are not applicable.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of

Dell Computer Corporation

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Dell Computer Corporation and its subsidiaries at January 31, 2003 and February 1, 2002, and the results of their operations and their cash flows for each of the three fiscal years in the period ended January 31, 2003, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index, presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company s management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, during fiscal 2001 the Company changed its revenue recognition for certain product shipments.

PRICEWATERHOUSECOOPERS LLP

Austin, Texas

February 13, 2003

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DELL COMPUTER CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(in millions)

	January 31, 2003	February 1, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,232	$ 3,641
Short-term investments	406	273
Accounts receivable, net	2,586	2,269
Inventories	306	278
Other	1,394	1,416
Total current assets	8,924	7,877
Property, plant and equipment, net	913	826
Investments	5,267	4,373
Other non-current assets	366	459
Total assets	$15,470	$13,535
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 5,989	$ 5,075
Accrued and other	2,944	2,444
Total current liabilities	8,933	7,519
Long-term debt	506	520
Other	1,158	802
Commitments and contingent liabilities (Note 6)		
Total liabilities	10,597	8,841
Stockholders equity:		
Preferred stock and capital in excess of $.01 par value; shares issued and outstanding: none		
Common stock and capital in excess of $.01 par value; shares authorized: 7,000; shares issued: 2,681 and 2,654, respectively	6,018	5,605
Treasury stock, at cost; 102 and 52 shares, respectively	(4,539)	(2,249)
Retained earnings	3,486	1,364
Other comprehensive income (loss)	(33)	38
Other	(59)	(64)
Total stockholders equity	4,873	4,694
Total liabilities and stockholders equity	$15,470	$13,535

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

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DELL COMPUTER CORPORATION

CONSOLIDATED STATEMENT OF INCOME

(in millions, except per share amounts)

	Fiscal Year Ended		
	January 31, 2003	**February 1, 2002**	**February 2, 2001**
Net revenue	$35,404	$31,168	$31,888
Cost of revenue	29,055	25,661	25,445
Gross margin	6,349	5,507	6,443
Operating expenses:			
Selling, general and administrative	3,050	2,784	3,193
Research, development and engineering	455	452	482
Special charges		482	105
Total operating expenses	3,505	3,718	3,780
Operating income	2,844	1,789	2,663
Investment and other income (loss), net	183	(58)	531
Income before income taxes and cumulative effect of change in accounting principle	3,027	1,731	3,194
Provision for income taxes	905	485	958
Income before cumulative effect of change in accounting principle	2,122	1,246	2,236
Cumulative effect of change in accounting principle, net			59
Net income	$ 2,122	$ 1,246	$ 2,177
Earnings per common share:			
Before cumulative effect of change in accounting principle:			
Basic	$ 0.82	$ 0.48	$ 0.87
Diluted	$ 0.80	$ 0.46	$ 0.81
After cumulative effect of change in accounting principle:			
Basic	$ 0.82	$ 0.48	$ 0.84
Diluted	$ 0.80	$ 0.46	$ 0.79
Weighted average shares outstanding:			
Basic	2,584	2,602	2,582
Diluted	2,644	2,726	2,746

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

DELL COMPUTER CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS
(in millions)

	Fiscal Year Ended		
	January 31, 2003	**February 1, 2002**	**February 2, 2001**
Cash flows from operating activities:			
Net income	$ 2,122	$ 1,246	$ 2,177
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	211	239	240
Tax benefits of employee stock plans	260	487	929
Special charges		742	105
(Gains)/losses on investments	(67)	17	(307)
Other, primarily effects of exchange rate changes on monetary assets and liabilities denominated in foreign currencies	(410)	178	135
Changes in:			
Operating working capital	1,210	826	642
Non-current assets and liabilities	212	62	274
Net cash provided by operating activities	3,538	3,797	4,195
Cash flows from investing activities:			
Investments:			
Purchases	(8,736)	(5,382)	(2,606)
Maturities and sales	7,660	3,425	2,331
Capital expenditures	(305)	(303)	(482)
Net cash used in investing activities	(1,381)	(2,260)	(757)
Cash flows from financing activities:			
Purchase of common stock	(2,290)	(3,000)	(2,700)
Issuance of common stock under employee plans and other	265	298	395
Net cash used in financing activities	(2,025)	(2,702)	(2,305)
Effect of exchange rate changes on cash	459	(104)	(32)
Net increase (decrease) in cash	591	(1,269)	1,101
Cash and cash equivalents at beginning of period	3,641	4,910	3,809
Cash and cash equivalents at end of period	$ 4,232	$ 3,641	$ 4,910

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

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DELL COMPUTER CORPORATION

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(in millions)

	Common Stock and Capital in Excess of Par Value		Treasury Stock					
	Shares	**Amount**	**Shares**	**Amount**	**Retained Earnings**	**Other Comprehensive Income (Loss)**	**Other**	**Total**
Balances at January 28, 2000								