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PERSONAL COMPUTER INDUSTRY

Apple Computer, Inc.
Income Statements
(in millions of dollars)

	1998	1997	1996	1995	1994	1993
Net sales	\$5,941	\$ 7,081	\$9,833	\$11,062	\$9,188	\$7,977
Cost of sales	4,462	5,713	8,865	8,204	6,844	5,248
Gross margin	1,479	1,368	968	2,858	2,344	2,729
Operating expenses:						
Research and development	303	485	604	614	564	664
Selling, general and administration	908	1,286	1,568	1,583	1,384	1,632
Restructuring costs	—	292	179	—	(126)	320
In-process research and development	7	375	—	—	—	—
Total operating expenses	1,218	2,438	2,351	2,197	1,822	2,616
Operating income	261	(1,070)	(1,383)	661	522	113
Other income and (expenses)	68	25	88	—	(21)	26
Income (loss) before taxes	329	(1,045)	(1,295)	661	501	139
Provision (benefit) for taxes	20	—	(479)	237	191	53
Net income (loss)	\$ 309	\$(1,045)	\$(816)	\$ 424	\$ 310	\$ 86
Basic EPS	\$ 2.34	(\$8.29)	(\$6.59)	\$ 3.50	\$ 2.63	\$ 0.73
Diluted EPS	\$ 2.10			\$ 3.45	\$ 2.61	

Apple Computer, Inc.
Income Statements
(in millions of dollars)
(continued)

Vertical Common Size

	1998	1997	1996	1995	1994	1993
Net sales	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of sales	75.11%	80.68%	90.16%	74.16%	74.49%	65.79%
Gross margin	24.89%	19.32%	9.84%	25.84%	25.51%	34.21%
Operating expenses:						
Research and development	5.10%	6.85%	6.14%	5.55%	6.14%	8.32%
Selling, general, and administrative	15.28%	18.16%	15.95%	14.31%	15.06%	20.46%
Restructuring costs	0.00%	4.12%	1.82%	0.00%	-1.37%	4.01%
Total operating expenses	20.50%	34.43%	23.91%	19.86%	19.83%	32.79%
Operating income	4.39%	-15.11%	-14.06%	5.98%	5.68%	1.42%
Other income and expenditures.	1.14%	0.35%	0.89%	0.00%	-0.23%	0.33%
Income (loss) before taxes	-5.54%	-14.76%	-13.17%	5.98%	5.45%	1.74%
Provision (benefit) for taxes	0.34%	0.00%	-4.87%	2.14%	2.08%	0.66%
Net income (loss)	5.20%	-14.76%	-8.30%	3.83%	3.37%	1.08%

Horizontal Common Size—1993 Base

	1998	1997	1996	1995	1994	1993
Net sales	74.48%	88.77%	123.27%	138.67%	115.18%	100.00%
Cost of sales	85.02%	108.86%	168.92%	156.33%	130.41%	100.00%
Gross margin	54.20%	50.13%	35.47%	104.73%	85.89%	100.00%
Operating expenses:						
Research and development	45.63%	73.04%	90.96%	92.47%	84.94%	100.00%
Selling, general, and administrative	55.64%	78.80%	96.08%	97.00%	84.80%	100.00%
Restructuring costs	0.00%	91.25%	55.94%	0.00%	-39.38%	100.00%
Total operating expenses	46.56%	93.20%	89.87%	83.98%	69.65%	100.00%
Operating income	230.97%	-946.90%	-1223.89%	584.96%	461.95%	100.00%
Other income and expenditures.	261.54%	96.15%	338.46%	0.00%	-80.77%	100.00%
Income (loss) before taxes	236.69%	-751.80%	-931.65%	475.54%	360.43%	100.00%
Provision (benefit) for taxes	37.74%	0.00%	-903.77%	447.17%	360.38%	100.00%
Net income (loss)	359.30%	-1215.12%	-948.84%	493.02%	360.47%	100.00%

Horizontal Common Size—Rolling Forward

	1998	1997	1996	1995	1994	1993
Net sales	83.90%	72.01%	88.89%	120.40%	115.18%	100.00%
Cost of sales	78.10%	64.44%	108.06%	119.87%	130.41%	100.00%
Gross margin	108.11%	141.32%	33.87%	121.93%	85.89%	100.00%

Apple Computer, Inc.
Income Statements
(in millions of dollars)
(continued)

Horizontal Common Size—Rolling Forward (continued)

	1998	1997	1996	1995	1994	1993
Operating expenses:						
Research and development	62.47%	80.30%	98.37%	108.87%	84.94%	100.00%
Selling, general, and administrative	70.61%	82.02%	99.05%	114.38%	84.80%	100.00%
Restructuring costs	0.00%	163.13%	0.00%	0.00%	-39.38%	100.00%
Total operating expenses	49.96%	103.70%	107.01%	120.58%	69.65%	100.00%
Operating income	-24.39%	77.37%	-209.23%	126.63%	461.95%	100.00%
Other income and expenditures	272.00%	28.41%	0.00%	0.00%	-80.77%	100.00%
Income (loss) before taxes	-31.48%	80.69%	-195.92%	131.94%	360.43%	100.00%
Provision (benefit) for taxes	0.00%	0.00%	-202.11%	124.08%	360.38%	100.00%
Net income (loss)	-29.57%	128.06%	-192.45%	136.77%	360.47%	100.00%

Compound Annual Growth 1993-1998

	1993	1994	1995	1996	1997	1998	Growth
Net sales	\$(7,977)	0	0	0	0	\$5,941	-5.7%
Cost of sales	\$(5,248)	0	0	0	0	4,462	-3.2%
Gross margin	\$(2,729)	0	0	0	0	1,479	-11.5%
Operating expenses:	\$ —	0	0	0	0	0	
Research and development	\$ (664)	0	0	0	0	303	-14.5%
Selling, general and administration	\$(1,632)	0	0	0	0	908	-11.1%
Restructuring costs	\$ (320)	0	0	0	0	—	
In-process research and development	\$ —	0	0	0	0	7	
Total operating expenses	\$(2,616)	0	0	0	0	1,218	-14.2%
Operating income	\$ (113)	0	0	0	0	261	18.2%
Other income and (expenses)	\$ (26)	0	0	0	0	68	21.2%
Income (loss) before taxes	\$ (139)	0	0	0	0	329	18.8%
Provision (benefit) for taxes	\$ (53)	0	0	0	0	20	-17.7%
Net income (loss)	\$ (86)	0	0	0	0	\$ 309	29.1%

Apple Computer, Inc.
Balance Sheets
(in millions of dollars)

	1998	1997	1996	1995	1994	1993
Assets						
Current Assets						
Cash and equivalents	\$1,481	\$1,230	\$1,552	\$ 756	\$1,203	\$ 676
Short-term investments	819	229	193	196	54	215
Accounts receivable, net	955	1,035	1,496	1,931	1,581	1,381
Inventories	78	437	662	1,775	1,088	1,506
Other current assets	365	493	612	566	550	560
Total current assets	3,698	3,424	4,515	5,224	4,476	4,338
Property, plant and equipment, net	348	486	598	711	667	659
Other assets	243	323	251	296	159	174
Total assets	\$4,289	\$4,233	\$5,364	\$6,231	\$5,302	\$5,171
Liabilities						
Current Liabilities						
Notes payable	\$ —	\$ 25	\$ 186	\$ 461	\$ 292	\$ 823
Accounts payable	719	685	791	1,165	881	742
Accrued expenses	801	1,108	1,026	699	771	943
Total current liabilities	1,520	1,818	2,003	2,325	1,944	2,508
Long-term debt	954	951	949	303	305	7
Deferred tax liabilities	173	264	354	702	670	629
Total liabilities	\$2,647	\$3,033	\$3,306	\$3,330	\$2,919	\$3,144
Shareholders' Equity						
Preferred stock	150	150	—	—	—	—
Common stock	633	498	439	398	297	203
Retained earnings	898	589	1,634	2,464	2,096	1,842
Other equity	(39)	(37)	(15)	39	(10)	(18)
Total shareholders' equity	1,642	1,200	2,058	2,901	2,383	2,027
Total liabilities and shareholders' equity	\$4,289	\$4,233	\$5,364	\$6,231	\$5,302	\$5,171

Vertical Common Size

	1998	1997	1996	1995	1994	1993
Assets						
Current assets	34.53%	29.06%	28.93%	12.13%	22.69%	13.07%
Cash and equivalents	19.10%	5.41%	3.60%	3.15%	1.02%	4.16%
Short-term investments	22.27%	24.45%	27.89%	30.99%	29.82%	26.71%
Accounts receivable, net	1.82%	10.32%	12.34%	28.49%	20.52%	29.12%
Inventories	8.51%	11.65%	11.41%	9.08%	10.37%	10.83%
Other current assets	86.22%	80.89%	84.17%	83.84%	84.42%	83.89%
Total current assets	8.11%	11.48%	11.15%	11.41%	12.58%	12.74%
Property, plant and equipment, net	5.67%	7.63%	4.68%	4.75%	3.00%	3.36%
Other assets	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Total assets						

Apple Computer, Inc.
Balance Sheets
(in millions of dollars)
(continued)

Vertical Common Size (continued)

	1998	1997	1996	1995	1994	1993
Liabilities						
Current liabilities	0.00%	0.59%	3.47%	7.40%	5.51%	15.92%
Notes payable	16.76%	16.18%	14.75%	18.70%	16.62%	14.35%
Accounts payable	18.68%	26.18%	19.13%	11.22%	14.54%	18.24%
Accrued expenses	35.44%	42.95%	37.34%	37.31%	36.67%	48.50%
Total current liabilities	22.24%	22.47%	17.69%	4.86%	5.75%	0.14%
Long-term debt	4.03%	6.24%	6.60%	11.27%	12.64%	12.16%
Deferred tax liabilities	61.72%	71.65%	61.63%	53.44%	55.05%	60.80%
Total liabilities						
Shareholders' Equity						
Preferred stock	3.50%	3.54%	0.00%	0.00%	0.00%	0.00%
Common stock	14.76%	11.76%	8.18%	6.39%	5.60%	3.93%
Retained earnings	20.94%	13.91%	30.46%	39.54%	39.53%	35.62%
Other equity	-0.91%	-0.87%	-0.28%	0.63%	-0.19%	-0.35%
Total shareholders' equity	38.28%	28.35%	38.37%	46.56%	44.95%	39.20%
Total liabilities and shareholders' equity	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Horizontal Common Size—1993 Base Year

	1998	1997	1996	1995	1994	1993
Assets						
Current assets	219.08%	181.95%	229.59%	111.83%	177.96%	100.00%
Cash and equivalents	380.93%	106.51%	89.77%	91.16%	25.12%	100.00%
Short-term investments	69.15%	74.95%	108.33%	139.83%	114.48%	100.00%
Accounts receivable, net	5.18%	29.02%	43.96%	117.86%	72.24%	100.00%
Inventories	65.18%	88.04%	109.29%	101.07%	98.21%	100.00%
Other current assets	85.25%	78.93%	104.08%	120.42%	103.18%	100.00%
Total current assets	52.81%	73.75%	90.74%	107.89%	101.21%	100.00%
Property, plant, and equipment, net	139.66%	185.63%	144.25%	170.11%	91.38%	100.00%
Other assets	82.94%	81.86%	103.73%	120.50%	102.53%	100.00%
Total assets						
Liabilities						
Current liabilities	0.00%	3.04%	22.60%	56.01%	35.48%	100.00%
Notes payable	96.90%	92.32%	106.60%	157.01%	118.73%	100.00%
Accounts payable	84.94%	117.50%	108.80%	74.13%	81.76%	100.00%
Accrued expenses	60.61%	72.49%	79.86%	92.70%	77.51%	100.00%
Total current liabilities	13628.57%	13585.71%	13557.14%	4328.57%	4357.14%	100.00%
Long-term debt	27.50%	41.97%	56.28%	111.61%	106.52%	100.00%
Deferred tax liabilities	84.19%	96.47%	105.15%	105.92%	92.84%	100.00%
Total liabilities						

Apple Computer, Inc.
Balance Sheets
(in millions of dollars)
(continued)

Horizontal Common Size—1993 Base Year (continued)

	1998	1997	1996	1995	1994	1993
Shareholders' Equity						
Preferred stock	311.82%	245.32%	216.26%	196.06%	146.31%	100.00%
Common stock	48.75%	31.98%	88.71%	133.77%	113.79%	100.00%
Retained earnings	216.67%	205.56%	83.33%	-216.67%	55.56%	100.00%
Other equity	81.01%	59.20%	101.53%	143.12%	117.56%	100.00%
Total shareholders' equity						
Total liabilities and shareholders' equity	82.94%	81.86%	103.73%	120.50%	102.53%	100.00%

Horizontal Common Size—Rolling Forward

	1998	1997	1996	1995	1994	1993
Assets						
Current assets	120.41%	79.25%	205.29%	62.84%	177.96%	100.00%
Cash and equivalents	357.64%	118.65%	98.47%	362.96%	25.12%	100.00%
Short-term investments						
Accounts receivable, net	92.27%	69.18%	77.47%	122.14%	114.48%	100.00%
Inventories	17.85%	66.01%	37.30%	163.14%	72.24%	100.00%
Other current assets	74.04%	80.56%	108.13%	102.91%	98.21%	100.00%
Total current assets	108.00%	75.84%	86.43%	116.71%	103.18%	100.00%
Property, plant and equipment, net	71.60%	81.27%	84.11%	106.60%	101.21%	100.00%
Other assets	75.23%	128.69%	84.80%	186.16%	91.38%	100.00%
Total assets	101.32%	78.91%	86.09%	117.52%	102.53%	100.00%
Liabilities						
Current liabilities						
Notes payable	0.00%	13.44%	40.35%	157.88%	35.48%	100.00%
Accounts payable	104.96%	86.60%	67.90%	132.24%	118.73%	100.00%
Accrued expenses	72.29%	107.99%	146.78%	90.66%	81.76%	100.00%
Total current liabilities	83.61%	90.76%	86.15%	119.60%	77.51%	100.00%
Long-term debt	100.32%	100.21%	313.20%	99.34%	4357.14%	100.00%
Deferred tax liabilities	65.53%	74.58%	50.43%	104.78%	106.52%	100.00%
Total liabilities	87.27%	91.74%	99.28%	114.08%	92.84%	100.00%
Shareholders' Equity						
Preferred stock	100.00%					
Common stock	127.11%	113.44%	110.30%	134.01%	146.31%	100.00%
Retained earnings	152.46%	36.05%	66.31%	117.56%	113.79%	100.00%
Other equity	105.41%	246.67%	-38.46%	-390.00%	55.56%	100.00%
Total shareholders' equity	136.83%	58.31%	70.94%	121.74%	117.56%	100.00%
Total liabilities and shareholders' equity	101.32%	78.91%	86.09%	117.52%	102.53%	100.00%

Apple Computer, Inc.
Balance Sheets
(in millions of dollars)
(continued)

Compound Annual Growth 1993—1998

ASSETS	1993	1994	1995	1996	1997	1998	Growth
Cash and equivalents	\$ (676)	0	0	0	0	\$1,481	17.0%
Short-term investments	\$ (215)	0	0	0	0	819	30.7%
Accounts receivable, net	\$(1,381)	0	0	0	0	955	-7.1%
Inventories	\$(1,506)	0	0	0	0	78	
Other current assets	\$ (560)	0	0	0	0	365	-8.2%
Total current assets	\$(4,338)	0	0	0	0	3,698	-3.1%
Property, plant and equipment, net	\$ (659)	0	0	0	0	348	-12.0%
Other assets	\$ (174)	0	0	0	0	243	6.9%
Total assets	\$(5,171)	0	0	0	0	4,289	-3.7%
Liabilities	\$ —	0	0	0	0	0	
Current liabilities	\$ —	0	0	0	0	0	
Notes payable	\$ (823)	0	0	0	0	\$ —	
Accounts payable	\$ (742)	0	0	0	0	719	-0.6%
Accrued expenses	\$ (943)	0	0	0	0	801	-3.2%
Total current liabilities	\$(2,508)	0	0	0	0	1,520	-9.5%
Long-term debt	\$ (7)	0	0	0	0	954	167.2%
Deferred tax liabilities	\$ (629)	0	0	0	0	173	
Total liabilities	\$(3,144)	0	0	0	0	\$2,647	-3.4%
Shareholders' Equity	0	0	0	0	0	0	
Preferred stock	—	0	0	0	0	150	
Common stock	(203)	0	0	0	0	633	25.5%
Retained earnings	(1,842)	0	0	0	0	898	-13.4%
Other equity	18	0	0	0	0	(39)	16.7%
Total shareholders' equity	(2,027)	0	0	0	0	1,642	-4.1%
Total liabilities and shareholders' equity	\$(5,171)	0	0	0	0	4,289	-3.7%

Apple Computer, Inc.
Consolidated Statements of
Cash Flows
(in millions of dollars)

	1998	1997	1996	1995	1994	1993
Operating:						
Net income (loss)	\$309	\$(1,045)	\$(816)	\$ 424	\$310	\$ 87
Depreciation and amortization expense	111	118	116	127	168	166
Deferred income taxes	1	(50)	(437)			
In-process research and development	7	375				
Change in accounts receivable	72	469	435	(350)	(199)	(295)
Change in inventory	359	225	1,113	(687)	418	(927)
Change in accounts payable	34	(107)	(373)	283	139	316
Restructuring costs	(107)	109	124	(47)	(250)	203
Other	(11)	60	246	10	151	(201)
Cash generated by operating activities	\$775	\$ 154	\$ 408	\$(240)	\$737	\$(651)

Apple Computer, Inc.
Consolidated Statements of
Cash Flows
(in millions of dollars)
(continued)

	1998	1997	1996	1995	1994	1993
Investing:						
Purchase of short-term investments	\$(2,313)	\$(999)	\$(437)	\$(1,672)	\$(312)	\$(1,432)
Proceeds from sale of short-term investments	1,723	963	440	1,531	474	2,153
Proceeds from sale of property, plant, and equipment	89	47	47			
Purchase of property, plant, and equipment	(46)	(53)	(67)	(159)	(160)	(213)
Acquisition of technology	(10)	(384)				
Proceeds from sale of equity investment	24					
Other	(10)	(73)	9	(102)	(4)	(15)
Cash used for investing activities	\$ (543)	\$(499)	\$ (8)	\$ (402)	\$ (2)	\$ 493
Financing:						
Notes payable to bank	\$ (25)	\$(161)	\$(275)	\$ 169	\$(531)	\$ 590
Long-term borrowings	3		646	(2)	297	(10)
Proceeds from issuance of preferred stock		150				
Increase in common stock	41	34	39	86	82	(188)
Dividends			(14)	(58)	(56)	(56)
Cash generated by financing activities	\$ 19	\$ 23	\$ 396	\$ 195	\$(208)	\$ 336
Total cash generated (used)	\$ 251	\$(322)	\$ 796	\$ (447)	\$ 527	\$ 178
Cash and cash equivalents, beginning of year	\$ 1,230	\$1,552	\$ 756	\$ 1,203	\$ 676	\$ 498
Cash and cash equivalents, end of year	\$ 1,481	\$1,230	\$1,552	\$ 756	\$1,203	\$ 676

Apple Computer, Inc.
Income Statements
(in millions of dollars)

	1998	1997	1996	1995	1994	1993
Net sales	\$5,941	\$ 7,081	\$9,833	\$11,062	\$9,188	\$9,188
Cost of sales	4,462	5,713	8,865	8,204	6,844	6,844
Gross margin	1,479	1,368	968	2,858	2,344	2,344
Operating expenses:						
Research and development	303	485	604	614	564	564
Selling, general and administration	908	1,286	1,568	1,583	1,384	1,384
Restructuring costs	—	292	179	—	(126)	(126)
In-process research and development	7	375	—	—	—	—
Total operating expenses	1,218	2,438	2,351	2,197	1,822	1,822
Operating income	261	(1,070)	(1,383)	661	522	522
Other income and (expenses)	68	25	88	—	(21)	(21)
Income (loss) before taxes	329	(1,045)	(1,295)	661	501	501
Provision (benefit) for taxes	20	—	(479)	237	191	191
Net income (loss)	\$ 309	\$(1,045)	\$(816)	\$ 424	\$ 310	\$ 310

We initially presented these income statements (beginning with 1993) on p. 346. They are repeated here to facilitate analysis. We use the income statement data along with the "average" balance sheets, cash flow information, and market data (p. 354) as ratio inputs (pp. 355-356). We use this convention for the remaining companies in Appendices A-F.

Apple Computer, Inc.
AVERAGE Balance Sheets
(in millions of dollars)

	1998	1997	1996	1995	1994
Assets					
Current Assets					
Cash and equivalents	\$1,355.50	\$1,391.00	\$1,154.00	\$ 979.50	\$ 939.50
Short-term investments	\$ 524.00	\$ 211.00	\$ 194.50	\$ 125.00	\$ 134.50
Accounts receivable, net	\$ 995.00	\$1,265.50	\$1,713.50	\$1,756.00	\$1,481.00
Inventories	\$ 257.50	\$ 549.50	\$1,218.50	\$1,431.50	\$1,297.00
Other current assets	\$ 429.00	\$ 552.50	\$ 589.00	\$ 558.00	\$ 555.00
Total current assets	\$3,561.00	\$3,969.50	\$4,869.50	\$4,850.00	\$4,407.00
Property, plant and equipment, net	\$ 417.00	\$ 542.00	\$ 654.50	\$ 689.00	\$ 663.00
Other assets	\$ 283.00	\$ 287.00	\$ 273.50	\$ 227.50	\$ 166.50
Total assets	\$4,261.00	\$4,798.50	\$5,797.50	\$5,766.50	\$5,236.50
Liabilities					
Current Liabilities					
Notes payable	\$ 12.50	\$ 105.50	\$ 323.50	\$ 376.50	\$ 557.50
Accounts payable	\$ 702.00	\$ 738.00	\$ 978.00	\$1,023.00	\$ 811.50
Accrued expenses	\$ 954.50	\$1,067.00	\$ 862.50	\$ 735.00	\$ 857.00
Total current liabilities	\$1,669.00	\$1,910.50	\$2,164.00	\$2,134.50	\$2,226.00
Long-term debt	\$ 952.50	\$ 950.00	\$ 626.00	\$ 304.00	\$ 156.00
Deferred tax liabilities	\$ 218.50	\$ 309.00	\$ 528.00	\$ 686.00	\$ 649.50
Total liabilities	\$2,840.00	\$3,169.50	\$3,318.00	\$3,124.50	\$3,031.50
Shareholders' Equity					
Preferred stock	\$ 150.00	\$ 75.00	\$ —	\$ —	\$ —
Common stock	\$ 565.50	\$ 468.50	\$ 418.50	\$ 347.50	\$ 250.00
Retained earnings	\$ 743.50	\$1,111.50	\$2,049.00	\$2,280.00	\$1,969.00
Other equity	\$ (38.00)	\$ (26.00)	\$ 12.00	\$ 14.50	\$ (14.00)
Total shareholders' equity	\$1,421.00	\$1,629.00	\$2,479.50	\$2,642.00	\$2,205.00
Total liabilities and shareholders' equity	\$4,261.00	\$4,798.50	\$5,797.50	\$5,766.50	\$5,236.50
Cash Flow Data					
Cash flow from operations	\$ 775	\$ 154	\$ 408	\$ (240)	\$ 737
Fixed asset purchases	46	53	67	159	160
Long-term debt repayment	25	161	275	2	531
Cash dividends			14	58	56
Depreciation and amortization	111	118	116	127	168
Market Data					
High market price	\$ 21.90	\$ 14.90	\$ 17.80	\$ 25.10	\$ 21.90
Low market price	\$ 6.80	\$ 6.40	\$ 8.00	\$ 15.80	\$ 12.30
Number of shares outstanding (millions)	270.39	255.90	248.99	245.84	239.09
Market capitalization	\$3,880.10	\$2,725.34	\$3,211.97	\$5,027.43	\$4,088.44

Liquidity Ratios

	1998	1997	1996	1995	1994
Working capital	\$1,892.0	\$2,059.0	\$2,705.5	\$2,715.5	\$2,181.0
Working capital ratio	2.13	2.08	2.25	2.27	1.98
Quick ratio	1.72	1.50	1.41	1.34	1.15
Inventory turnover	17.33	10.40	7.28	5.73	5.28
Days in inventory	21.06	35.11	50.17	63.69	69.17
Accounts receivable turnover	5.97	5.60	5.74	6.30	6.20
Days in accounts receivable	61.13	65.23	63.60	57.94	58.83
Inventory conversion cycle	82.19	100.34	113.77	121.63	128.00
Accounts payable turnover	6.36	7.74	9.06	8.02	8.43
Days in accounts payable	57.42	47.15	40.27	45.51	43.28
Net cash conversion cycle	24.77	53.19	73.51	76.12	84.73
Cash + short-term investments	1879.50	1602.00	1348.50	1104.50	1074.00
A/R*days in accounts receivable	60824.63	82551.04	108987.09	101743.87	87132.87
Inventory*days in inventory	5423.98	19291.41	61131.52	91169.57	89714.54
Product dollar days	68128.11	103444.46	171467.11	194017.94	177921.40
Current assets—other current assets	3132.00	3417.00	4280.50	4292.00	3852.00
Liquidity index	21.75	30.27	40.06	45.20	46.19

Cash Flow Ratios

	1998	1997	1996	1995	1994
Cash flow adequacy	10.92	0.72	1.15	(1.10)	0.99
Reinvestment ratio	0.06	0.34	0.16	(0.66)	0.22
Long-term debt repayment	0.03	1.05	0.67	(0.01)	0.72
Dividend payout	—	—	0.03	(0.24)	0.08
Free cash flow	729.00	101.00	327.00	(457.00)	521.00
Depreciation impact ratio	0.14	0.77	0.28	(0.53)	0.23
Recapitalization index	0.41	0.45	0.58	1.25	0.95
Cash flow return on assets	0.18	0.03	0.07	(0.04)	0.14
Cash flow return on sales	0.13	0.02	0.04	(0.02)	0.08
Operations index	2.97	(0.14)	(0.30)	(0.36)	1.41

Asset Utilization Ratios

	1998	1997	1996	1995	1994
Profit margin	5.201%	-14.758%	-8.299%	3.833%	3.374%
Asset turnover	1.394	1.476	1.696	1.918	1.755
Financial structure leverage	2.999	2.946	2.338	2.183	2.375
Return on assets	7.25%	-21.78%	-14.08%	7.35%	5.92%
Return on equity	21.75%	-64.15%	-32.91%	16.05%	14.06%

Capital Structure Ratios

	1998	1997	1996	1995	1994
Debt to capital	0.67	0.66	0.57	0.54	0.58
Debt to equity	2.00	1.95	1.34	1.18	1.37
Long-term debt to capital	0.22	0.20	0.11	0.05	0.03
Long-term debt to equity	0.67	0.58	0.25	0.12	0.07
Working capital/ total assets-Z1	0.53	0.51	0.56	0.57	0.50
Retained earnings/ total assets-Z2	0.24	0.32	0.49	0.55	0.53
EBIT/total assets-Z3	0.20	(0.74)	(0.79)	0.38	0.33
Sales/total assets-Z4	.82	.52	.58	.97	.81
Market to book-Z5	3.19	2.09	2.54	4.38	3.92
Z-Score	4.01	2.58	2.74	4.56	4.22

Market Ratio

	1998	1997	1996	1995	1994
Price to earnings	12.56	(2.61)	(3.94)	11.86	13.19

	1998	1997	1996	1995	1994	1993
Sales	\$31,169	\$24,584	\$20,009	\$16,675	\$10,866	\$7,191
Cost of goods sold	23,980	17,833	14,855	12,291	8,139	5,493
Gross profit	7,189	6,751	5,154	4,384	2,727	1,698
Selling, general, and administrative expenses	4,978	2,947	2,541	2,186	1,235	837
Research and development	1,353	817	695	552	110	169
Restructuring	393	52	52	158	265	—
Other expenses	(69)	21	(17)	(79)	(55)	76
In-process research and development	3,196	208		241		
Total expenses	9,851	4,003	3,271	3,058	1,555	1,082
Pretax income	(2,662)	2,748	1,883	1,326	1,172	616
Tax expense	81	903	565	433	305	154
Net income	\$(2,743)	\$ 1,845	\$ 1,318	\$ 893	\$ 867	\$ 462
Basic earnings per share	\$ (1.71)	\$ 1.23	\$ 0.90	\$ 0.62	\$ 0.70	\$ 0.01
Diluted earnings per share		\$ 1.19	\$ 0.87	\$ 0.60	\$ 0.68	

Vertical Common Size

	1998	1997	1996	1995	1994	1993
Sales	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of goods sold	76.94%	72.54%	74.24%	73.71%	74.90%	76.39%
Gross profit	23.06%	27.46%	25.76%	26.29%	25.10%	23.61%
Selling, general, and administrative expenses	15.97%	11.99%	12.70%	13.11%	11.37%	11.64%

Vertical Common Size (continued)

	1998	1997	1996	1995	1994	1993
Research and development	4.34%	3.32%	3.47%	3.31%	1.01%	2.35%
Restructuring	1.26%	0.21%	0.26%	0.95%	2.44%	0.00%
Other expenses	-0.22%	0.09%	-0.08%	-0.47%	-0.51%	1.06%
In-process research and development	10.25%	0.85%	0.00%	1.45%	0.00%	0.00%
Total expenses	31.61%	16.28%	16.35%	18.34%	14.31%	15.05%
Pretax income	-8.54%	11.18%	9.41%	7.95%	10.79%	8.57%
Tax expense	0.26%	3.67%	2.82%	2.60%	2.81%	2.14%
Net income	-8.80%	7.50%	6.59%	5.36%	7.98%	6.42%

Horizontal Common Size—1993 Base Year

	1998	1997	1996	1995	1994	1993
Sales	433.44%	341.87%	278.25%	231.89%	151.11%	100.00%
Cost of goods sold	436.56%	324.65%	270.44%	223.76%	148.17%	100.00%
Gross profit	423.38%	397.59%	303.53%	258.19%	160.60%	100.00%
Selling, general, and administrative expenses	594.74%	352.09%	303.58%	261.17%	147.55%	100.00%
Research and development	800.59%	483.43%	411.24%	326.63%	65.09%	100.00%
Restructuring	-90.79%	27.63%	-22.37%	-103.95%	-72.37%	100.00%
Other expenses						
In-process research and development						
Total expenses	910.44%	369.96%	302.31%	282.62%	143.72%	100.00%
Pretax income	-432.14%	446.10%	305.68%	215.26%	190.26%	100.00%
Tax expense	52.60%	586.36%	366.88%	281.17%	198.05%	100.00%
Net income	-593.72%	399.35%	285.28%	193.29%	187.66%	100.00%

Horizontal Common Size—Rolling Forward

	1998	1997	1996	1995	1994	1993
Sales	126.79%	122.86%	119.99%	153.46%	151.11%	100.00%
Cost of goods sold	134.47%	120.05%	120.86%	151.01%	148.17%	100.00%
Gross profit	106.49%	130.99%	117.56%	160.76%	160.60%	100.00%
Selling, general, and administrative expenses	168.92%	115.98%	116.24%	177.00%	147.55%	100.00%
Research and development	165.61%	117.55%	125.91%	501.82%	65.09%	100.00%
Restructuring	755.77%	100.00%	32.91%	59.62%		100.00%
Other expenses	-328.57%	-123.53%	21.52%	143.64%	-72.37%	100.00%
In-process research and development	1536.54%		0.00%			100.00%
Total expenses	246.09%	122.38%	106.97%	196.66%	143.72%	100.00%
Pretax income	-96.87%	145.94%	142.01%	113.14%	190.26%	100.00%

Horizontal Common Size—Rolling Forward (continued)

	1998	1997	1996	1995	1994	1993
Tax expense	8.97%	159.82%	130.48%	141.97%	198.05%	100.00%
Net income	-148.67%	139.98%	147.59%	103.00%	187.66%	100.00%

Compound Annual Growth

	1993	1994	1995	1996	1997	1998	Growth
Sales	\$(7,191)	0	0	0	0	\$ 31,169	34.1%
Cost of goods sold	\$(5,493)	0	0	0	0	23,980	34.3%
Gross profit	\$(1,698)	0	0	0	0	7,189	33.5%
Selling, general, and administrative expenses	\$(837)	0	0	0	0	4,978	42.8%
Research and development	\$(169)	0	0	0	0	1,353	51.6%
Restructuring	\$ —	0	0	0	0	393	
Other expenses	\$(76)	0	0	0	0	(69)	
In-process research and development	\$ —	0	0	0	0	3,196	
Total expenses	\$(1,082)	0	0	0	0	9,851	55.5%
Pretax income	\$(616)	0	0	0	0	(2,662)	
Tax expense	\$(154)	0	0	0	0	81	-12.1%
Net income	\$(462)	0	0	0	0	\$(2,743)	

	1998	1997	1996	1995	1994	1993
Cash	\$ 4,091	\$ 6,418	\$ 3,008	\$ 745	\$ 471	\$ 627
Short-term investments	—	344	1,073	—	—	—
Accounts receivable	6,998	2,891	3,718	3,141	2,287	1,377
Inventory	2,005	1,570	1,267	2,156	2,005	1,123
Deferred taxes	1,602	595	836	365	303	126
Other current assets	471	199	187	120	92	38
Total current assets	15,167	12,017	10,089	6,527	5,158	3,291
Property, plant, and equipment	2,902	1,985	1,753	1,110	944	779
Other assets	4,982	629	489	181	64	14
Total assets	\$23,051	\$14,631	\$12,331	\$7,818	\$6,166	\$4,084
Accounts payable	\$ 4,237	\$ 2,837	\$ 2,098	\$1,379	\$ 888	\$ 637
Taxes payable	282	195	533	190	246	69
Other current liabilities	6,214	2,170	2,110	1,111	879	538
Total current liabilities	10,733	5,202	4,741	2,680	2,013	1,244
Long-term debt	967	—	300	524	479	186
Total liabilities	11,700	5,202	5,041	3,204	2,492	1,430
Common stock	7,270	2,096	1,779	890	739	586
Retained earnings	4,081	7,333	5,511	3,724	2,935	2,068
Total shareholders' equity	11,351	9,429	7,290	4,614	3,674	2,654
Total liabilities and shareholders' equity	\$23,051	\$14,631	\$12,331	\$7,818	\$6,166	\$4,084

Vertical Common Size

	1998	1997	1996	1995	1994	1993
Cash	17.75%	43.87%	24.39%	9.53%	7.64%	15.35%
Short-term investments	0.00%	2.35%	8.70%	0.00%	0.00%	0.00%
Accounts receivable	30.36%	19.76%	30.15%	40.18%	37.09%	33.72%
Inventory	8.70%	10.73%	10.27%	27.58%	32.52%	27.50%
Deferred taxes	6.95%	4.07%	6.78%	4.67%	4.91%	3.09%
Other current assets	2.04%	1.36%	1.52%	1.53%	1.49%	0.93%
Total current assets	65.80%	82.13%	81.82%	83.49%	83.65%	80.58%
Property, plant, and equipment	12.59%	13.57%	14.22%	14.20%	15.31%	19.07%
Other assets	21.61%	4.30%	3.97%	2.32%	1.04%	0.34%
Total assets	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Accounts payable	18.38%	19.39%	17.01%	17.64%	14.40%	15.60%
Taxes payable	1.22%	1.33%	4.32%	2.43%	3.99%	1.69%
Other current liabilities	26.96%	14.83%	17.11%	14.21%	14.26%	13.17%
Total current liabilities	46.56%	35.55%	38.45%	34.28%	32.65%	30.46%
Long-term debt	4.20%	0.00%	2.43%	6.70%	7.77%	4.55%
Total liabilities	50.76%	35.55%	40.88%	40.98%	40.42%	35.01%
Common stock	31.54%	14.33%	14.43%	11.38%	11.99%	14.35%
Retained earnings	17.70%	50.12%	44.69%	47.63%	47.60%	50.64%
Total shareholders' equity	49.24%	64.45%	59.12%	59.02%	59.58%	64.99%
Total liabilities and shareholders' equity	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Horizontal Common Size—1993 Base Year

	1998	1997	1996	1995	1994	1993
Cash	652.47%	1023.60%	479.74%	118.82%	75.12%	100.00%
Short-term investments						
Accounts receivable	508.21%	209.95%	270.01%	228.10%	166.09%	100.00%
Inventory	178.54%	139.80%	112.82%	191.99%	178.54%	100.00%
Deferred taxes	1271.43%	472.22%	663.49%	289.68%	240.48%	100.00%
Other current assets	1239.47%	523.68%	492.11%	315.79%	242.11%	100.00%
Total current assets	460.86%	365.15%	306.56%	198.33%	156.73%	100.00%
Property, plant, and equipment	372.53%	254.81%	225.03%	142.49%	121.18%	100.00%
Other assets	35585.71%	4492.86%	3492.86%	1292.86%	457.14%	100.00%
Total assets	564.42%	358.25%	301.93%	191.43%	150.98%	100.00%
Accounts payable	665.15%	445.37%	329.36%	216.48%	139.40%	100.00%
Taxes payable	408.70%	282.61%	772.46%	275.36%	356.52%	100.00%
Other current liabilities	1155.02%	403.35%	392.19%	206.51%	163.38%	100.00%
Total current liabilities	862.78%	418.17%	381.11%	215.43%	161.82%	100.00%
Long-term debt	519.89%	0.00%	161.29%	281.72%	257.53%	100.00%
Total liabilities	818.18%	363.78%	352.52%	224.06%	174.27%	100.00%
Common stock	1240.61%	357.68%	303.58%	151.88%	126.11%	100.00%

Horizontal Common Size—1993 Base Year (continued)

	1998	1997	1996	1995	1994	1993
Retained earnings	197.34%	354.59%	266.49%	180.08%	141.92%	100.00%
Total shareholders' equity	427.69%	355.28%	274.68%	173.85%	138.43%	100.00%
Total liabilities and shareholders' equity	564.42%	358.25%	301.93%	191.43%	150.98%	100.00%

Horizontal Common Size—Rolling Forward

	1998	1997	1996	1995	1994	1993
Cash	63.74%	213.36%	403.76%	158.17%	75.12%	100.00%
Short-term investments						
Accounts receivable	242.06%	77.76%	118.37%	137.34%	166.09%	100.00%
Inventory	127.71%	123.91%	58.77%	107.53%	178.54%	100.00%
Deferred taxes	269.24%	71.17%	229.04%	120.46%	240.48%	100.00%
Other current assets	236.68%	106.42%	155.83%	130.43%	242.11%	100.00%
Total current assets	126.21%	119.11%	154.57%	126.54%	156.73%	100.00%
Property, plant, and equipment	146.20%	113.23%	157.93%	117.58%	121.18%	100.00%
Other assets	792.05%	128.63%	270.17%	282.81%	457.14%	100.00%
Total assets	157.55%	118.65%	157.73%	126.79%	150.98%	100.00%
Accounts payable	149.35%	135.22%	152.14%	155.29%	139.40%	100.00%
Taxes payable	144.62%	36.59%	280.53%	77.24%	356.52%	100.00%
Other current liabilities	286.36%	102.84%	189.92%	126.39%	163.38%	100.00%
Total current liabilities	206.32%	109.72%	176.90%	133.13%	161.82%	100.00%
Long-term debt		0.00%	57.25%	109.39%	257.53%	100.00%
Total liabilities	224.91%	103.19%	157.33%	128.57%	174.27%	100.00%
Common stock	346.85%	117.82%	199.89%	120.43%	126.11%	100.00%
Retained earnings	55.65%	133.06%	147.99%	126.88%	141.92%	100.00%
Total shareholders' equity	120.38%	129.34%	158.00%	125.59%	138.43%	100.00%
Total liabilities and shareholders' equity	157.55%	118.65%	157.73%	126.79%	150.98%	100.00%

Compound Annual Growth

	1993	1994	1995	1996	1997	1998	Growth
Cash	\$ (627)	0	0	0	0	\$ 4,091	45.5%
Short-term investments	\$ —	0	0	0	0	—	
Accounts receivable	\$(1,377)	0	0	0	0	6,998	38.4%
Inventory	\$(1,123)	0	0	0	0	2,005	12.3%
Deferred taxes	\$ (126)	0	0	0	0	1,602	66.3%
Other current assets	\$ (38)	0	0	0	0	471	65.4%
Total current assets	\$(3,291)	0	0	0	0	15,167	35.7%
Property, plant, and equipment	\$ (779)	0	0	0	0	2,902	30.1%

Compaq Balance Sheets
(in millions)
(continued)

Compound Annual Growth (continued)

	1993	1994	1995	1996	1997	1998	Growth
Other assets	\$ (14)	0	0	0	0	4,982	223.8%
Total assets	\$ (4,084)	0	0	0	0	\$23,051	41.4%
Accounts payable	\$ (637)	0	0	0	0	\$ 4,237	46.1%
Taxes payable	\$ (69)	0	0	0	0	282	32.5%
Other current liabilities	\$ (538)	0	0	0	0	6,214	63.1%
Total current liabilities	\$ (1,244)	0	0	0	0	10,733	53.9%
Long-term debt	\$ (186)	0	0	0	0	967	39.1%
Total liabilities	\$ (1,430)	0	0	0	0	11,700	52.3%
Common stock	\$ (586)	0	0	0	0	7,270	65.5%
Retained earnings	\$ (2,068)	0	0	0	0	4,081	14.6%
Total shareholders' equity	\$ (2,654)	0	0	0	0	11,351	33.7%
Total liabilities and shareholders' equity	\$ (4,084)	0	0	0	0	\$23,051	41.4%

Compaq Computer, Inc.
Consolidated Statements of
Cash Flows
(in millions of dollars)

	1998	1997	1996	1995	1994	1993
Operating:						
Net income (loss)	\$(2,743)	\$1,845	\$ 1,318	\$ 893	\$ 867	\$ 462
Depreciation and amortization expense	893	545	483	384	169	156
Purchased technology	3,196	208				
Deferred income taxes	(130)	202	(405)	(24)	(184)	(38)
Restructuring and asset impairment	393		52			
Change in accounts receivable	(1,736)	614	(228)	(910)	(926)	(484)
Change in inventory	857	(355)	1,014	(144)	(882)	(289)
Change in accounts payable	589	756	562	479	248	125
Other	(675)	(127)	770	355	607	308
Cash generated by operating activities	\$ 644	\$3,688	\$ 3,566	\$1,033	\$(101)	\$ 240
Investing:						
Purchase of property, plant, and equipment	\$ (600)	\$(729)	\$ (484)	\$(565)	\$(357)	\$(145)
Purchase of short-term investments	(77)	(2,405)	(1,401)			
Proceeds from sale of short-term investments	421	3,134	328			
Acquisition of technology	(1,413)	(268)	(22)	(318)		
Acquisition of lease portfolio	(361)					
Other	(437)	(31)	(75)	(29)	(51)	
Cash used for investing activities	\$(2,467)	\$(299)	\$(1,654)	\$(912)	\$(408)	\$(145)

Compaq Computer, Inc.
Consolidated Statements of
Cash Flows
(in millions of dollars)
(continued)

	1998	1997	1996	1995	1994	1993
Financing:						
Issue long-term debt					\$ 300	
Repayment of long-term debt	(788)	(293)				
Purchase of treasury shares	(384)					
Issuance of common stock- stock options	407	188	131	123	100	142
Tax benefits of stock options	234	156	91	65		
Dividends	(95)					
Other	(18)	(37)				
Cash generated by financing activities	\$ (644)	\$ 14	\$ 222	\$ 188	\$ 400	\$ 142
Effect of exchange rate changes	140	7	21	-42	-47	33
Total cash generated (used)	\$(2,327)	\$3,410	\$2,155	\$267	\$(156)	\$270
Cash and cash equivalent, beginning of year	\$ 6,418	\$3,008	\$ 853	\$586	\$ 627	\$357
Cash and cash equivalents, end of year	\$ 4,091	\$6,418	\$3,008	\$853	\$ 471	\$627

Note: 1994 ending cash balance and 1995 beginning cash balance as reported.

Compaq Income Statements
(in millions)

	1998	1997	1996	1995	1994
Sales	\$31,169	\$24,584	\$20,009	\$16,675	\$10,866
Cost of goods sold	23,980	17,833	14,855	12,291	8,139
Gross profit	7,189	6,751	5,154	4,384	2,727
Selling, general, and administrative expenses	4,978	2,947	2,541	2,186	1,235
Research and development	1,353	817	695	552	110
Restructuring	393	52	52	158	265
Other expenses	(69)	21	(17)	(79)	(55)
In-process research and development	3,196	208		241	
Total expenses	9,851	4,003	3,271	3,058	1,555
Pretax income	(2,662)	2,748	1,883	1,326	1,172
Tax expense	81	903	565	433	305
Net income	\$(2,743)	\$ 1,845	\$ 1,318	\$ 893	\$ 867

Compaq AVERAGE Balance
Sheets (in millions)

	1998	1997	1996	1995	1994
Cash	\$ 5,254.50	\$ 4,713.00	\$ 1,876.50	\$ 608.00	\$ 549.00
Short-term investments	172.00	708.50	536.50	—	—
Accounts receivable	4,944.50	3,304.50	3,429.50	2,714.00	1,832.00
Inventory	1,787.50	1,418.50	1,711.50	2,080.50	1,564.00
Deferred taxes	1,098.50	715.50	600.50	334.00	214.50
Other current assets	335.00	193.00	153.50	106.00	65.00
Total current assets	13,592.00	11,053.00	8,308.00	5,842.50	4,224.50
Property, plant and equipment	2,443.50	1,869.00	1,431.50	1,027.00	861.50
Other assets	2,805.50	559.00	335.00	122.50	39.00
Total assets	\$18,841.00	\$13,481.00	\$10,074.50	\$6,992.00	\$5,125.00
Accounts payable	\$ 3,537.00	\$ 2,467.50	\$ 1,738.50	\$1,133.50	\$ 762.50
Taxes payable	238.50	364.00	361.50	218.00	157.50
Other current liabilities	4,192.00	2,140.00	1,610.50	995.00	708.50
Total current liabilities	7,967.50	4,971.50	3,710.50	2,346.50	1,628.50
Long-term debt	483.50	150.00	412.00	501.50	332.5
Total liabilities	8,451.00	5,121.50	4,122.50	2,848.00	1,961.00
Common stock	4,683.00	1,937.50	1,334.50	814.50	662.50
Retained earnings	5,707.00	6,422.00	4,617.50	3,329.50	2,501.50
Total shareholders' equity	10,390.00	8,359.50	5,952.00	4,144.00	3,164.00
Total liabilities and shareholders' equity	\$18,841.00	\$13,481.00	\$10,074.50	\$6,992.00	\$5,125.00

Cash Flow Data

	1998	1997	1996	1995	1994
Cash flow from operations	\$644	\$3,688	\$3,566	\$1,033	(\$101)
Fixed asset purchases	600	729	484	565	357
Long-term debt repayment	788	293	—	—	—
Cash dividends	95	—	—	—	—
Depreciation and amortization	893	545	483	384	169

Market Data

	1998	1997	1996	1995	1994
High market price	\$ 44.80	\$ 39.80	\$ 17.40	\$ 11.40	\$ 8.40
Low market price	\$ 22.90	\$ 14.20	\$ 7.20	\$ 6.20	\$ 4.80
Number of shares outstanding (millions)	1,687	1,519	1,368	1,335	1,305
Market capitalization	\$57,104.95	\$41,013.00	\$16,826.40	\$11,748.00	\$8,613.00

Liquidity Ratios

	1998	1997	1996	1995	1994
Working capital	\$5,624.50	\$6,081.50	\$4,597.50	\$3,496.00	\$2,596.00
Working capital ratio	1.71	2.22	2.24	2.49	2.59
Quick ratio	1.30	1.76	1.57	1.42	1.46
Inventory turnover	13.42	12.57	8.68	5.91	5.20
Days in inventory	27.21	29.03	42.05	61.78	70.14
Accounts receivable turnover	6.30	7.44	5.83	6.14	5.93
Days in accounts receivable	57.90	49.06	62.56	59.41	61.54
Inventory conversion cycle	85.11	78.10	104.61	121.19	131.68
Accounts payable turnover	6.78	7.23	8.54	10.84	10.67
Days in accounts payable	53.84	50.50	42.72	33.66	34.19
Net cash conversion cycle	31.27	27.59	61.90	87.53	97.48
Cash + short-term investments	5,426.50	5,421.50	2,413.00	608.00	549.00
A/R*days in accounts receivable	286,295.66	162,125.69	214,550.28	161,230.32	112,738.98
Inventory*days in inventory	48,633.53	41,183.87	71,973.73	128,540.83	109,697.14
Product dollar days	340,355.68	208,731.06	288,937.02	290,379.14	222,985.12
Current assets—other current assets	13,257.00	10,860.00	8,154.50	5,736.50	4,159.50
Liquidity index	25.67	19.22	35.43	50.62	53.61

Cash Flow Ratios

	1998	1997	1996	1995	1994
Cash flow adequacy	0.43	3.61	7.37	1.83	(0.28)
Reinvestment ratio	0.93	0.20	0.14	0.55	(3.53)
Long-term debt repayment	1.22	0.08	—	—	—
Dividend payout	0.15	—	—	—	—
Free cash flow	(51.00)	2,959.00	3,082.00	468.00	(458.00)
Depreciation impact ratio	1.39	0.15	0.14	0.37	(1.67)
Recapitalization index	0.67	1.34	1.00	1.47	2.11
Cash flow return on assets	0.03	0.27	0.35	0.15	(0.02)
Cash flow return on sales	0.02	0.15	0.18	0.06	(0.01)
Operations index	(0.24)	1.34	1.89	0.78	(0.09)

Asset Utilization Ratios

	1998	1997	1996	1995	1994
Profit margin	-8.80%	7.505%	6.587%	5.355%	7.979%
Asset turnover	1.654	1.824	1.986	2.385	2.120
Financial structure leverage	1.813	1.613	1.693	1.687	1.620
Return on assets	-14.56%	13.69%	13.08%	12.77%	16.92%
Return on equity	-26.40%	22.07%	22.14%	21.55%	27.40%

Capital Structure Ratios

	1998	1997	1996	1995	1994
Debt to capital	0.45	0.38	0.41	0.41	0.38
Debt to equity	0.81	0.61	0.69	0.69	0.62
Long-term debt to capital	0.03	0.01	0.04	0.07	0.06
Long-term debt to equity	0.05	0.02	0.07	0.12	0.11
Working capital/total assets-Z1	0.36	0.54	0.55	0.60	0.61
Retained earnings/total assets-Z2	0.42	0.67	0.64	0.67	0.68
EBIT/total assets-Z3	(0.47)	0.67	0.62	0.63	0.75
Sales/total assets-Z4	1.65	1.82	1.99	2.38	2.12
Market to book-Z5	4.05	4.80	2.45	2.48	2.64
Z-Score	6.02	8.51	6.24	6.75	6.80

Market Ratio

	1998	1997	1996	1995	1994
Price to earnings	(20.82)	22.23	12.77	13.16	9.93

Dell Income Statements
(in millions)

	1998	1997	1996	1995	1994
Sales revenues	\$12,327	\$7,759	\$5,296	\$3,475	\$2,873
Cost of goods sold	9,605	6,093	4,229	2,737	2,441
Gross profit	2,722	1,666	1,067	738	432
Selling, general and administrative expenses	1,202	826	595	424	422
Research and development expense	204	126	95	65	49
Total operating expenses	1,406	952	690	489	471
Operating income	1,316	714	377	249	(39)
Other gains and losses	52	33	6	(37)	(1)
Pretax income	1,368	747	383	212	(40)
Tax expense	424	216	111	63	3
Income before extraordinary items	944	531	272	148	(43)
Extraordinary items	—	13	12	—	—
Net income	\$ 944	\$ 518	\$ 260	\$ 148	\$ (43)
Basic EPS	\$ 1.44	\$ 0.75	\$ 0.36	\$ 0.23	\$(0.07)
Diluted EPS	\$ 1.28	\$ 0.68	\$ 0.33	\$ 0.19	\$ 0.65

Vertical Common Size

	1998	1997	1996	1995	1994	1993
Sales revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of goods sold	77.92%	78.53%	79.85%	78.76%	84.96%	77.69%
Gross profit	22.08%	21.47%	20.15%	21.24%	15.04%	22.31%
Selling, general, and administrative expenses	9.75%	10.65%	11.23%	12.20%	14.69%	13.26%
Research and development expense	1.65%	1.62%	1.79%	1.87%	1.71%	2.14%
Total operating expenses	11.41%	12.27%	13.03%	14.07%	16.39%	15.40%
Operating income	10.68%	9.20%	7.12%	7.17%	-1.36%	6.91%
Other gains and losses	0.42%	0.43%	0.11%	-1.06%	-0.03%	0.20%
Pretax income	11.10%	9.63%	7.23%	6.10%	-1.39%	7.10%
Tax expense	3.44%	2.78%	2.10%	1.81%	0.10%	2.09%
Income before extraordinary items	7.66%	6.84%	5.14%	4.26%	-1.50%	5.02%
Extraordinary items	0.00%	0.17%	0.23%	0.00%	0.00%	0.00%
Net income	7.66%	6.68%	4.91%	4.26%	-1.50%	5.02%

Horizontal Common Size—1993 Base Year

	1998	1997	1996	1995	1994	1993
Sales revenues	612.37%	385.44%	263.09%	172.63%	142.72%	100.00%
Cost of goods sold	614.13%	389.58%	270.40%	175.00%	156.07%	100.00%
Gross profit	606.24%	371.05%	237.64%	164.37%	96.21%	100.00%
Selling, general, and administrative expenses	450.19%	309.36%	222.85%	158.80%	158.05%	100.00%
Research and development expense	474.42%	293.02%	220.93%	151.16%	113.95%	100.00%
Total operating expenses	453.55%	307.10%	222.58%	157.74%	151.94%	100.00%
Operating income	946.76%	513.67%	271.22%	179.14%	-28.06%	100.00%
Other gains and losses	1300.00%	825.00%	150.00%	-925.00%	-25.00%	100.00%
Pretax income	956.64%	522.38%	267.83%	148.25%	-27.97%	100.00%
Tax expense	1009.52%	514.29%	264.29%	150.00%	7.14%	100.00%
Income before extraordinary items	934.65%	525.74%	269.31%	146.53%	-42.57%	100.00%
Extraordinary items						
Net income	934.65%	512.87%	257.43%	146.53%	-42.57%	100.00%

Horizontal Common Size—Rolling Forward

	1998	1997	1996	1995	1994	1993
Sales revenues	158.87%	146.51%	152.40%	120.95%	142.72%	100.00%
Cost of goods sold	157.64%	144.08%	154.51%	112.13%	156.07%	100.00%
Gross profit	163.39%	156.14%	144.58%	170.83%	96.21%	100.00%
Selling, general, and administrative expenses	145.52%	138.82%	140.33%	100.47%	158.05%	100.00%
Research and development expense	161.90%	132.63%	146.15%	132.65%	113.95%	100.00%
Total operating expenses	147.69%	137.97%	141.10%	103.82%	151.94%	100.00%
Operating income	184.31%	189.39%	151.41%	-638.46%	-28.06%	100.00%
Other gains and losses	157.58%	550.00%	-16.22%	3700.00%	-25.00%	100.00%
Pretax income	183.13%	195.04%	180.66%	-530.00%	-27.97%	100.00%
Tax expense	196.30%	194.59%	176.19%	2100.00%	7.14%	100.00%
Income before extraordinary items	177.78%	195.22%	183.78%	-344.19%	-42.57%	100.00%
Extraordinary items	0.00%	108.33%				
Net income	182.24%	199.23%	175.68%	-344.19%	-42.57%	100.00%

Compound Annual Growth

	1993	1994	1995	1996	1997	1998	Growth
Sales revenues	\$(2,013)	0	0	0	0	\$12,327	43.7%
Cost of goods sold	\$(1,564)	0	0	0	0	9605	43.8%
Gross profit	\$ (449)	0	0	0	0	2722	43.4%
Selling, general, and administrative expenses	\$ (267)	0	0	0	0	1202	35.1%
Research and development expense	\$ (43)	0	0	0	0	204	36.5%
Total operating expenses	\$ (310)	0	0	0	0	1406	35.3%
Operating income	\$ (139)	0	0	0	0	1316	56.8%
Other gains and losses	\$ (4)	0	0	0	0	52	67.0%
Pretax income	\$ (143)	0	0	0	0	1368	57.1%
Tax expense	\$ (42)	0	0	0	0	424	58.8%
Income before extraordinary items	\$ (101)	0	0	0	0	944	56.4%
Extraordinary items	\$ —	0	0	0	0	0	
Net income	\$ (101)	0	0	0	0	\$ 944	56.4%

Dell Balance Sheets
(in millions)

	1998	1997	1996	1995	1994	1993
Cash	\$ 320	\$ 115	\$ 55	\$ 43	\$ 3	\$ 14
Short-term investments	1,524	1,237	591	484	334	80
Accounts receivable	1,486	903	726	538	410	374
Inventory	233	251	429	293	220	304
Other current assets	349	241	156	112	81	80
Total current assets	3,912	2,747	1,957	1,470	1,048	852
Property, plant, and equipment	342	235	179	117	86	71
Other assets	14	11	12	7	6	4
Total assets	\$4,268	\$2,993	\$2,148	\$1,594	\$1,140	\$927
Accounts payable	\$1,643	\$1,040	\$ 466	\$ 403	\$ 282	\$295
Accrued liabilities	1,054	618	473	349	255	198
Total current liabilities	2,697	1,658	939	752	537	493
Long-term debt	17	18	113	113	100	48
Warranty payable	225	219	116	68	32	—
Other liabilities	36	13	7	9	—	17
Total liabilities	2,975	1,908	1,175	942	669	558
Preferred stock	—	—	6	120	1	1
Common stock	747	474	430	242	320	177
Retained earnings	607	647	570	311	170	208
Other equity adjustments	(61)	(36)	(33)	(21)	(20)	(17)
Total shareholders' equity	1,293	1,085	973	652	471	369
Total liabilities and shareholders' equity	\$4,268	\$2,993	\$2,148	\$1,594	\$1,140	\$927

Vertical Common Sizing

	1998	1997	1996	1995	1994	1993
Cash	7.50%	3.84%	2.56%	2.70%	0.26%	1.51%
Short-term Investments	35.71%	41.33%	27.51%	30.36%	29.30%	8.63%
Accounts receivable	34.82%	30.17%	33.80%	33.75%	35.96%	40.35%
Inventory	5.46%	8.39%	19.97%	18.38%	19.30%	32.79%
Other current assets	8.18%	8.05%	7.26%	7.03%	7.11%	8.63%
Total current assets	91.66%	91.78%	91.11%	92.22%	91.93%	91.91%
Property, plant, and equipment	8.01%	7.85%	8.33%	7.34%	7.54%	7.66%
Other assets	0.33%	0.37%	0.56%	0.44%	0.53%	0.43%
Total assets	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Accounts payable	38.50%	34.75%	21.69%	25.28%	24.74%	31.82%
Accrued liabilities	24.70%	20.65%	22.02%	21.89%	22.37%	21.36%
Total current liabilities	63.19%	55.40%	43.72%	47.18%	47.11%	53.18%

Vertical Common Sizing (continued)

	1998	1997	1996	1995	1994	1993
Long-term debt	0.40%	0.60%	5.26%	7.09%	8.77%	5.18%
Warranty payable	5.27%	7.32%	5.40%	4.27%	2.81%	0.00%
Other liabilities	0.84%	0.43%	0.33%	0.56%	0.00%	1.83%
Total liabilities	69.70%	63.75%	54.70%	59.10%	58.68%	60.19%
Preferred stock	0.00%	0.00%	0.28%	7.53%	0.09%	0.11%
Common stock	17.50%	15.84%	20.02%	15.18%	28.07%	19.09%
Retained earnings	14.22%	21.62%	26.54%	19.51%	14.91%	22.44%
Other equity adjustments	-1.43%	-1.20%	-1.54%	-1.32%	-1.75%	-1.83%
Total shareholders' equity	30.30%	36.25%	45.30%	40.90%	41.32%	39.81%
Total liabilities and shareholders' equity	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Horizontal Common Size—1993 Base Year

	1998	1997	1996	1995	1994	1993
Cash	2285.71%	821.43%	392.86%	307.14%	21.43%	100.00%
Short-term Investments	1905.00%	1546.25%	738.75%	605.00%	417.50%	100.00%
Accounts receivable	397.33%	241.44%	194.12%	143.85%	109.63%	100.00%
Inventory	76.64%	82.57%	141.12%	96.38%	72.37%	100.00%
Other current assets	436.25%	301.25%	195.00%	140.00%	101.25%	100.00%
Total current assets	459.15%	322.42%	229.69%	172.54%	123.00%	100.00%
Property, plant, and equipment	481.69%	330.99%	252.11%	164.79%	121.13%	100.00%
Other assets	350.00%	275.00%	300.00%	175.00%	150.00%	100.00%
Total assets	460.41%	322.87%	231.72%	171.95%	122.98%	100.00%
Accounts payable	556.95%	352.54%	157.97%	136.61%	95.59%	100.00%
Accrued liabilities	532.32%	312.12%	238.89%	176.26%	128.79%	100.00%
Total current liabilities	547.06%	336.31%	190.47%	152.54%	108.92%	100.00%
Long-term debt	35.42%	37.50%	235.42%	235.42%	208.33%	100.00%
Warranty payable						
Other liabilities	211.76%	76.47%	41.18%	52.94%	0.00%	100.00%
Total liabilities	533.15%	341.94%	210.57%	168.82%	119.89%	100.00%
Preferred stock	0.00%	0.00%	600.00%	12000.00%	100.00%	100.00%
Common stock	422.03%	267.80%	242.94%	136.72%	180.79%	100.00%
Retained earnings	291.83%	311.06%	274.04%	149.52%	81.73%	100.00%
Other equity adjustments	358.82%	211.76%	194.12%	123.53%	117.65%	100.00%
Total shareholders' equity	350.41%	294.04%	263.69%	176.69%	127.64%	100.00%
Total liabilities and shareholders' equity	460.41%	322.87%	231.72%	171.95%	122.98%	100.00%

Horizontal Common Size—Rolling Forward

	1998	1997	1996	1995	1994	1993
Cash	278.26%	209.09%	127.91%	1433.33%	21.43%	100.00%
Short-term Investments	123.20%	209.31%	122.11%	144.91%	417.50%	100.00%
Accounts receivable	164.56%	124.38%	134.94%	131.22%	109.63%	100.00%
Inventory	92.83%	58.51%	146.42%	133.18%	72.37%	100.00%
Other current assets	144.81%	154.49%	139.29%	138.27%	101.25%	100.00%
Total current assets	142.41%	140.37%	133.13%	140.27%	123.00%	100.00%
Property, plant, and equipment	145.53%	131.28%	152.99%	136.05%	121.13%	100.00%
Other assets	127.27%	91.67%	171.43%	116.67%	150.00%	100.00%
Total assets	142.60%	139.34%	134.76%	139.82%	122.98%	100.00%
Accounts payable	157.98%	223.18%	115.63%	142.91%	95.59%	100.00%
Accrued liabilities	170.55%	130.66%	135.53%	136.86%	128.79%	100.00%
Total current liabilities	162.67%	176.57%	124.87%	140.04%	108.92%	100.00%
Long-term debt	94.44%	15.93%	100.00%	113.00%	208.33%	100.00%
Warranty payable	102.74%	188.79%	170.59%	212.50%	0.00%	100.00%
Other liabilities	276.92%	185.71%	77.78%			100.00%
Total liabilities	155.92%	162.38%	124.73%	140.81%	119.89%	100.00%
Preferred stock		0.00%	5.00%	12000.00%	100.00%	100.00%
Common stock	157.59%	110.23%	177.69%	75.63%	180.79%	100.00%
Retained earnings	93.82%	113.51%	183.28%	182.94%	81.73%	100.00%
Other equity adjustments	169.44%	109.09%	157.14%	105.00%	117.65%	100.00%
Total shareholders' equity	119.17%	111.51%	149.23%	138.43%	127.64%	100.00%
Total liabilities and shareholders' equity	142.60%	139.34%	134.76%	139.82%	122.98%	100.00%

Compound Annual Growth

	1993	1994	1995	1996	1997	1998	Growth
Cash	\$ (14)	0	0	0	0	\$ 320	87.0%
Short-term Investments	\$ (80)	0	0	0	0	1,524	80.3%
Accounts receivable	\$(374)	0	0	0	0	1,486	31.8%
Inventory	\$(304)	0	0	0	0	233	-5.2%
Other current assets	\$ (80)	0	0	0	0	349	34.3%
Total current assets	\$(852)	0	0	0	0	3,912	35.6%
Property, plant, and equipment	\$ (71)	0	0	0	0	342	36.9%
Other assets	\$ (4)	0	0	0	0	14	28.5%
Total assets	\$(927)	0	0	0	0	\$4,268	35.7%
Accounts payable	\$ —	0	0	0	0		
Accrued liabilities	\$(295)	0	0	0	0	\$1,643	41.0%
Total liabilities	\$(198)	0	0	0	0	1,054	39.7%

Compound Annual Growth (continued)

	1993	1994	1995	1996	1997	1998	Growth
Total current liabilities	\$(493)	0	0	0	0	2,697	40.5%
Long-term debt	\$ (48)	0	0	0	0	17	-18.7%
Warranty payable	\$ —	0	0	0	0	225	
Other liabilities	\$ (17)	0	0	0	0	36	16.2%
Total liabilities	\$(558)	0	0	0	0	2,975	39.8%
Preferred stock	\$ (1)	0	0	0	0	—	
Common stock	\$(177)	0	0	0	0	747	33.4%
Retained earnings	\$(208)	0	0	0	0	607	23.9%
Other equity adjustments	\$ 17	0	0	0	0	(61)	29.1%
Total shareholders' equity	\$(369)	0	0	0	0	1,293	28.5%
Total liabilities and shareholders' equity	\$(927)	0	0	0	0	\$4,268	35.7%

Dell Computer, Inc.
Consolidated Statements of
Cash Flows
(in millions of dollars)

	1998	1997	1996	1995	1994	1993
Operating:						
Net income (loss)	\$ 944	\$ 518	\$ 260	\$ 148	\$ (43)	\$ 102
Depreciation and amortization expense	67	47	38	33	31	20
Other	24	29	22	24	4	4
Changes in operating working capital	529	659	(195)	(3)	97	(163)
Noncurrent assets and liabilities	28	109	50	41	24	2
Cash generated by operating activities	\$ 1,592	\$ 1,362	\$ 175	\$ 243	\$ 113	\$ (39)
Investing:						
Securities purchases	\$(12,305)	\$(9,538)	\$(4,545)	\$(4,644)	\$(2,588)	\$(1,809)
Securities sales	12,017	8,891	4,442	4,463	2,335	1,828
Capital expenditures	(187)	(114)	(101)	(64)	(48)	(47)
Net cash used for investing activities	\$ (475)	\$ (761)	\$ (204)	\$ (245)	\$ (301)	\$ (28)
Financing:						
Purchase of common stock	(1,023)	(495)				
Issuance of debt				13	88	16
Repurchase of notes payable		(95)			(50)	(1)
Issuance of common stock	88	57	48			12
Issuance of preferred stock					120	
Sale of equity options	38			35	20	
Preferred stock dividends	(1)		(14)	(9)	(2)	
Net cash generated by financing activities	\$ (898)	\$ (533)	\$ 34	\$ 39	\$ 176	\$ 27
Foreign exchange effect on cash	(14)	(8)	7	3		

Dell Computer, Inc.
Consolidated Statements of
Cash Flows
(in millions of dollars)
(continued)

	1998	1997	1996	1995	1994	1993
Total cash generated (used)	\$205	\$ 60	\$12	\$40	\$(12)	\$(40)
Cash and cash equivalent, beginning of year	\$115	\$ 55	\$43	\$3	\$ 15	\$ 55
Cash and cash equivalents, end of year	\$320	\$115	\$55	\$43	\$ 3	\$ 15

Dell Income Statements
(in millions)

	1998	1997	1996	1995	1994
Sales revenues	\$12,327	\$7,759	\$5,296	\$3,475	\$2,873
Cost of goods sold	9,605	6,093	4,229	2,737	2,441
Gross profit	2,722	1,666	1,067	738	432
Selling, general, and administrative expenses	1,202	826	595	424	422
Research and development expense	204	126	95	65	49
Total operating expenses	1,406	952	690	489	471
Operating income	1,316	714	377	249	(39)
Other gains and losses	52	33	6	(37)	(1)
Pretax income	1,368	747	383	212	(40)
Tax expense	424	216	111	63	3
Income before extraordinary items	944	531	272	148	(43)
Extraordinary items	—	13	12	—	—
Net income	\$ 944	\$ 518	\$ 260	\$ 148	\$ (43)

Dell AVERAGE Balance
Sheets
(in millions)

	1998	1997	1996	1995	1994
Cash	\$ 217.50	\$ 85.00	\$ 49.00	\$ 23.00	\$ 8.50
Short-term Investments	1,380.50	914.00	537.50	409.00	207.00
Accounts receivable	1,194.50	814.50	632.00	474.00	392.00
Inventory	242.00	340.00	361.00	256.50	262.00
Other current assets	295.00	198.50	134.00	96.50	80.50
Total current assets	3,329.50	2,352.00	1,713.50	1,259.00	950.00
Property, plant, and equipment	288.50	207.00	148.00	101.50	78.50
Other assets	12.50	11.50	9.50	6.50	5.00
Total assets	\$3,630.50	\$2,570.50	\$1,871.00	\$1,367.00	\$1,033.50
Accounts Payable	\$1,341.50	\$ 753.00	\$ 434.50	\$ 342.50	\$ 288.50
Accrued Liabilities	836.00	545.50	411.00	302.00	226.50
Total current liabilities	2,177.50	1,298.50	845.50	644.50	515.00
Long-term debt	17.50	65.50	113.00	106.50	74.00
Warranty payable	222.00	167.50	92.00	50.00	16.00
Other liabilities	24.50	10.00	8.00	4.50	8.50
Total liabilities	2,441.50	1,541.50	1,058.50	805.50	613.50

	1998	1997	1996	1995	1994
Preferred stock	—	3.00	63.00	60.50	1.00
Common stock	610.50	452.00	336.00	281.00	248.50
Retained earnings	627.00	608.50	440.50	240.50	189.00
Other equity adjustments	(48.50)	(34.50)	(27.00)	(20.50)	(18.50)
Total shareholders' equity	1,189.00	1,029.00	812.50	561.50	420.00
Total liabilities and shareholders' equity	\$3,630.50	\$2,570.50	\$1,871.00	\$1,367.00	\$1,033.50

Cash Flow Data

	1998	1997	1996	1995	1994
Cash flow from operations	\$1,592	\$1,362	\$175	\$243	\$113
Fixed asset purchases	187	114	101	64	48
Long-term debt repayment	—	95	—	—	50
Cash dividends	—	—	—	—	—
Depreciation and amortization	67	47	38	33	31

Market Data

	1998	1997	1996	1995	1994
High market price	\$ 55.00	\$ 37.90	\$ 13.00	\$ 4.00	\$ 1.50
Low market price	\$ 31.40	\$ 9.90	\$ 3.10	\$ 0.70	\$ 0.60
Number of shares outstanding (millions)	2,575.00	2,543.00	2,576.00	2,768.80	2,990.30
Market capitalization	\$111,240.00	\$60,777.70	\$20,736.80	\$6,506.68	\$3,139.82

Dell Ratios

	1998	1997	1996	1995	1994
Working capital	\$1,152.00	\$1,053.50	\$868.00	\$614.50	\$435.00
Working capital ratio	1.53	1.81	2.03	1.95	1.84
Quick ratio	1.28	1.40	1.44	1.41	1.18
Inventory turnover	39.69	17.92	11.71	10.67	9.32
Days in inventory	9.20	20.37	31.16	34.21	39.18
Accounts receivable turnover	10.32	9.53	8.38	7.33	7.33
Days in accounts receivable	35.37	38.32	43.56	49.79	49.80
Inventory conversion cycle	44.57	58.68	74.71	83.99	88.98
Accounts payable turnover	7.16	8.09	9.73	7.99	8.46
Days in accounts payable	50.98	45.11	37.50	45.68	43.14
Net cash conversion cycle	(6.41)	13.58	37.21	38.32	45.84
Cash + short-term investments	1,598.00	999.00	586.50	432.00	215.50
A/R*days in accounts receivable	42,248.16	31,208.24	27,528.28	23,599.06	19,522.23
Inventory*days in inventory	2,225.49	6,925.00	11,247.85	8,773.90	10,264.26

Liquidity Ratios (continued)

	1998	1997	1996	1995	1994
Product dollar days	46,071.65	39,132.24	39,362.63	32,804.96	30,001.99
Current assets-other current assets	3,034.50	2,153.50	1,579.50	1,162.50	869.50
Liquidity index	15.18	18.17	24.92	28.22	34.50

Cash Flow Ratios

	1998	1997	1996	1995	1994
Cash flow adequacy	8.51	6.52	1.73	3.80	1.15
Reinvestment ratio	0.12	0.08	0.58	0.26	0.42
Long-term debt repayment	—	0.07	—	—	0.44
Dividend payout	—	—	—	—	—
Free cash flow	1,405.00	1,248.00	74.00	179.00	65.00
Depreciation impact ratio	0.04	0.03	0.22	0.14	0.27
Recapitalization index	2.79	2.43	2.66	1.94	1.55
Cash flow return on assets	0.44	0.53	0.09	0.18	0.11
Cash flow return on sales	0.13	0.18	0.03	0.07	0.04
Operations index	1.21	1.91	0.46	0.98	(2.90)

Asset Utilization Ratios

	1998	1997	1996	1995	1994
Profit margin	7.658%	6.676%	4.909%	4.259%	-1.497%
Asset turnover	3.395	3.018	2.831	2.542	2.780
Financial structure leverage	3.053	2.498	2.303	2.435	2.461
Return on assets	26.00%	20.15%	13.90%	10.83%	-4.16%
Return on equity	79.39%	50.34%	32.00%	26.36%	-10.24%

Capital Structure Ratios

	1998	1997	1996	1995	1994
Debt to capital	0.67	0.60	0.57	0.59	0.59
Debt to equity	2.05	1.50	1.30	1.43	1.46
Long-term debt to capital	0.07	0.09	0.11	0.11	0.09
Long-term debt to equity	0.20	0.23	0.25	0.28	0.21
Working capital/total assets-Z1	0.38	0.49	0.56	0.54	0.51
Retained earnings/total assets-Z2	0.24	0.33	0.33	0.25	0.26
EBIT/total assets-Z3	1.20	0.92	0.66	0.60	-0.12
Sales/total assets-Z4	3.40	3.02	2.83	2.54	2.78
Market to book-Z5	27.34	23.66	11.75	4.85	3.07
Z-Score	32.55	28.41	16.14	8.78	6.49

Market Ratio

	1998	1997	1996	1995	1994
Price to earnings	117.84	117.33	79.76	43.96	(73.02)

Gateway Income Statements
(in millions)

	1998	1997	1996	1995	1994	1993
Sales revenue	\$7,467	\$6,293	\$5,035	\$3,676	\$2,701	\$1,731
Cost of goods sold	5,921	5,217	4,099	3,070	2,343	1,460
Gross profit	1,546	1,076	936	606	358	271
Selling, general, and administrative expenses	1,052	900	580	357	218	121
Operating income	494	176	356	249	140	150
Other, net	46	27	26	13	5	4
Income before taxes	540	203	382	262	145	154
Provision for taxes	194	93	132	90	50	3
Net income	\$ 346	\$ 110	\$ 250	\$ 172	\$ 95	\$ 151

Vertical Common Size

	1998	1997	1996	1995	1994	1993
Sales revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of goods sold	79.30%	82.90%	81.41%	83.51%	86.75%	84.34%
Gross profit	20.70%	17.10%	18.59%	16.49%	13.25%	15.66%
Selling, general, and administrative expenses	14.09%	14.30%	11.52%	9.71%	8.07%	6.99%
Operating income	6.62%	2.80%	7.07%	6.77%	5.18%	8.67%
Other, net	0.62%	0.43%	0.52%	0.35%	0.19%	0.23%
Income before taxes	7.23%	3.23%	7.59%	7.13%	5.37%	8.90%
Provision for taxes	2.60%	1.48%	2.62%	2.45%	1.85%	0.17%
Net income	4.63%	1.75%	4.97%	4.68%	3.52%	8.72%

Horizontal Common Size—1993 Base Year

	1998	1997	1996	1995	1994	1993
Sales revenue	431.37%	363.55%	290.87%	212.36%	156.04%	100.00%
Cost of goods sold	405.55%	357.33%	280.75%	210.27%	160.48%	100.00%
Gross profit	570.48%	397.05%	345.39%	223.62%	132.10%	100.00%
Selling, general, and administrative expenses	869.42%	743.80%	479.34%	295.04%	180.17%	100.00%
Operating income	329.33%	117.33%	237.33%	166.00%	93.33%	100.00%
Other, net	1150.00%	675.00%	650.00%	325.00%	125.00%	100.00%
Income before taxes	350.65%	131.82%	248.05%	170.13%	94.16%	100.00%
Provision for taxes	6466.67%	3100.00%	4400.00%	3000.00%	1666.67%	100.00%
Net income	229.14%	72.85%	165.56%	113.91%	62.91%	100.00%

Horizontal Common Size—Rolling Forward

	1998	1997	1996	1995	1994	1993
Sales revenue	118.66%	124.99%	136.97%	136.10%	156.04%	100.00%
Cost of goods sold	113.49%	127.27%	133.52%	131.03%	160.48%	100.00%
Gross profit	143.68%	114.96%	154.46%	169.27%	132.10%	100.00%
Selling, general, and administrative expenses	116.89%	155.17%	162.46%	163.76%	180.17%	100.00%
Operating income	280.68%	49.44%	142.97%	177.86%	93.33%	100.00%
Other, net	170.37%	103.85%	200.00%	260.00%	125.00%	100.00%
Income before taxes	266.01%	53.14%	145.80%	180.69%	94.16%	100.00%
Provision for taxes	208.60%	70.45%	146.67%	180.00%	1666.67%	100.00%
Net income	314.55%	44.00%	145.35%	181.05%	62.91%	100.00%

Compound Annual Growth

	1993	1994	1995	1996	1997	1998	Growth
Sales revenue	\$(1,731)	0	0	0	0	\$7,467	34.0%
Cost of goods sold	\$(1,460)	0	0	0	0	5,921	32.3%
Gross profit	\$ (271)	0	0	0	0	1,546	41.7%
Selling, general, and administrative expenses	\$ (121)	0	0	0	0	1,052	54.1%
Operating income	\$ (150)	0	0	0	0	494	26.9%
Other, net	\$ (4)	0	0	0	0	46	63.0%
Income before taxes	\$ (154)	0	0	0	0	540	28.5%
Provision for taxes	\$ (3)	0	0	0	0	194	130.2%
Net income	\$ (151)	0	0	0	0	\$ 346	18.0%

	1998	1997	1996	1995	1994	1993
Cash	\$1,169	\$ 593	\$ 516	\$ 166	\$214	\$113
Short-term investments	158	38	—	3	29	18
Accounts receivable	558	510	449	406	253	170
Inventory	167	249	278	224	120	177
Other current assets	176	154	75	67	33	22
Total current assets	2,228	1,544	1,318	866	649	500
Property, plant, and equipment	530	336	242	170	89	60
Intangible assets	65	121	77	59	27	3
Other assets	67	38	36	29	5	1
Total assets	\$2,890	\$2,039	\$1,673	\$1,124	\$770	\$564
Notes payable	\$11	\$13	\$15	\$13	\$3	\$5
Accounts payable	718	488	411	236	184	126
Accrued liabilities	415	271	190	110	57	24
Other current liabilities	285	231	183	166	104	99
Total current liabilities	1,429	1,003	799	525	348	254

	1998	1997	1996	1995	1994	1993
Long-term liabilities	3	7	7	11	27	29
Warranty liability	113	99	51	32	19	—
Total Liabilities	1,545	1,109	857	568	394	283
Common stock	2	2	2	1	1	1
Additional paid-in-capital	365	299	288	280	274	275
Retained earnings	982	634	526	275	101	5
Other equity adjustments	(4)	(5)	—	—	—	—
Total shareholders' equity	1,345	930	816	556	376	281
Total liabilities and shareholders' equity	\$2,890	\$2,039	\$1,673	\$1,124	\$770	\$564

Vertical Common Size

	1998	1997	1996	1995	1994	1993
Cash	40.45%	29.08%	30.84%	14.77%	27.79%	20.04%
Short-term investments	5.47%	1.86%	0.00%	0.27%	3.77%	3.19%
Accounts receivable	19.31%	25.01%	26.84%	36.12%	32.86%	30.14%
Inventory	5.78%	12.21%	16.62%	19.93%	15.58%	31.38%
Other current assets	6.09%	7.55%	4.48%	5.96%	4.29%	3.90%
Total current assets	77.09%	75.72%	78.78%	77.05%	84.29%	88.65%
Property, plant, and equipment	18.34%	16.48%	14.47%	15.12%	11.56%	10.64%
Intangible assets	2.25%	5.93%	4.60%	5.25%	3.51%	0.53%
Other assets	2.32%	1.86%	2.15%	2.58%	0.65%	0.18%
Total assets	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Notes payable	0.38%	0.64%	0.90%	1.16%	0.39%	0.89%
Accounts payable	24.84%	23.93%	24.57%	21.00%	23.90%	22.34%
Accrued liabilities	14.36%	13.29%	11.36%	9.79%	7.40%	4.26%
Other current liabilities	9.86%	11.33%	10.94%	14.77%	13.51%	17.55%
Total current liabilities	49.45%	49.19%	47.76%	46.71%	45.19%	45.04%
Long-term liabilities	0.10%	0.34%	0.42%	0.98%	3.51%	5.14%
Warranty liability	3.91%	4.86%	3.05%	2.85%	2.47%	0.00%
Total Liabilities	53.46%	54.39%	51.23%	50.53%	51.17%	50.18%
Common stock	0.07%	0.10%	0.12%	0.09%	0.13%	0.18%
Additional paid-in-capital	12.63%	14.66%	17.21%	24.91%	35.58%	48.76%
Retained earnings	33.98%	31.09%	31.44%	24.47%	13.12%	0.89%
Other equity adjustments	-0.14%	-0.25%	0.00%	0.00%	0.00%	0.00%
Total shareholders' equity	46.54%	45.61%	48.77%	49.47%	48.83%	49.82%
Total liabilities and shareholders' equity	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Horizontal Common Size—1993 Base Year

	1998	1997	1996	1995	1994	1993
Cash	1034.51%	524.78%	456.64%	146.90%	189.38%	100.00%
Short-term investments	877.78%	211.11%	0.00%	16.67%	161.11%	100.00%
Accounts receivable	328.24%	300.00%	264.12%	238.82%	148.82%	100.00%
Inventory	94.35%	140.68%	157.06%	126.55%	67.80%	100.00%
Other current assets	800.00%	700.00%	340.91%	304.55%	150.00%	100.00%
Total current assets	445.60%	308.80%	263.60%	173.20%	129.80%	100.00%
Property, plant, and equipment	883.33%	560.00%	403.33%	283.33%	148.33%	100.00%
Intangible assets	2166.67%	4033.33%	2566.67%	1966.67%	900.00%	100.00%
Other assets	6700.00%	3800.00%	3600.00%	2900.00%	500.00%	100.00%
Total assets	512.41%	361.52%	296.63%	199.29%	136.52%	100.00%
Notes payable	220.00%	260.00%	300.00%	260.00%	60.00%	100.00%
Accounts payable	569.84%	387.30%	326.19%	187.30%	146.03%	100.00%
Accrued liabilities	1729.17%	1129.17%	791.67%	458.33%	237.50%	100.00%
Other current liabilities	287.88%	233.33%	184.85%	167.68%	105.05%	100.00%
Total current liabilities	562.60%	394.88%	314.57%	206.69%	137.01%	100.00%
Long-term liabilities	10.34%	24.14%	24.14%	37.93%	93.10%	100.00%
Warranty liability						
Total Liabilities	545.94%	391.87%	302.83%	200.71%	139.22%	100.00%
Common stock	200.00%	200.00%	200.00%	100.00%	100.00%	100.00%
Additional paid-in-capital	132.73%	108.73%	104.73%	101.82%	99.64%	100.00%
Retained earnings	19640.00%	12680.00%	10520.00%	5500.00%	2020.00%	100.00%
Other equity adjustments						
Total shareholders' equity	478.65%	330.96%	290.39%	197.86%	133.81%	100.00%
Total liabilities and shareholders' equity	512.41%	361.52%	296.63%	199.29%	136.52%	100.00%

Horizontal Common Size—Rolling Forward

	1998	1997	1996	1995	1994	1993
Cash	197.13%	114.92%	310.84%	77.57%	189.38%	100.00%
Short-term investments	415.79%		0.00%	10.34%	161.11%	100.00%
Accounts receivable	109.41%	113.59%	110.59%	160.47%	148.82%	100.00%
Inventory	67.07%	89.57%	124.11%	186.67%	67.80%	100.00%
Other current assets	114.29%	205.33%	111.94%	203.03%	150.00%	100.00%
Total current assets	144.30%	117.15%	152.19%	133.44%	129.80%	100.00%
Property, plant and equipment	157.74%	138.84%	142.35%	191.01%	148.33%	100.00%
Intangible assets	53.72%	157.14%	130.51%	218.52%	900.00%	100.00%
Other assets	176.32%	105.56%	124.14%	580.00%	500.00%	100.00%
Total assets	141.74%	121.88%	148.84%	145.97%	136.52%	100.00%
Notes payable	84.62%	86.67%	115.38%	433.33%	60.00%	100.00%
Accounts payable	147.13%	118.73%	174.15%	128.26%	146.03%	100.00%
Accrued liabilities	153.14%	142.63%	172.73%	192.98%	237.50%	100.00%
Other current liabilities	123.38%	126.23%	110.24%	159.62%	105.05%	100.00%
Total current liabilities	142.47%	125.53%	152.19%	150.86%	137.01%	100.00%
Long-term liabilities	42.86%	100.00%	63.64%	40.74%	93.10%	100.00%
Warranty liability	114.14%	194.12%	159.38%	168.42%		
Total Liabilities	139.31%	129.40%	150.88%	144.16%	139.22%	100.00%
Common stock	100.00%	100.00%	200.00%	100.00%	100.00%	100.00%
Additional paid-in-capital	122.07%	103.82%	102.86%	102.19%	99.64%	100.00%
Retained earnings	154.89%	120.53%	191.27%	272.28%	2020.00%	100.00%
Other equity adjustments	80.00%					
Total shareholders' equity	144.62%	113.97%	146.76%	147.87%	133.81%	100.00%
Total liabilities and shareholders' equity	141.74%	121.88%	148.84%	145.97%	136.52%	100.00%

Gateway Balance Sheets
(in millions)
(continued)

Compound Annual Growth

	1993	1994	1995	1996	1997	1998	Growth
Cash	\$(113)	0	0	0	0	\$1,169	59.6%
Short-term investments	\$ (18)	0	0	0	0	158	54.4%
Accounts receivable	\$(170)	0	0	0	0	558	26.8%
Inventory	\$(177)	0	0	0	0	167	-1.2%
Other current assets	\$ (22)	0	0	0	0	176	51.6%
Total current assets	\$(500)	0	0	0	0	2,228	34.8%
Property, plant, and equipment	\$ (60)	0	0	0	0	530	54.6%
Intangible assets	\$ (3)	0	0	0	0	65	85.0%
Other assets	\$ (1)	0	0	0	0	67	131.9%
Total assets	\$(564)	0	0	0	0	\$2,890	38.7%
Notes payable	\$ (5)	0	0	0	0	\$ 11	17.1%
Accounts payable	\$(126)	0	0	0	0	718	41.6%
Accrued liabilities	\$ (24)	0	0	0	0	415	76.8%
Other current liabilities	\$ (99)	0	0	0	0	285	23.5%
Total current liabilities	\$(254)	0	0	0	0	1,429	41.3%
Long-term liabilities	\$ (29)	0	0	0	0	3	
Warranty liability	\$ —	0	0	0	0	113	
Total Liabilities	\$(283)	0	0	0	0	1,545	40.4%
Common stock	\$ (1)	0	0	0	0	2	14.9%
Additional paid-in-capital	\$(275)	0	0	0	0	365	5.8%
Retained earnings	\$ (5)	0	0	0	0	982	187.5%
Other equity adjustments	\$ —	0	0	0	0	(4)	
Total shareholders' equity	\$(281)	0	0	0	0	1,345	36.8%
Total liabilities and shareholders' equity	\$(564)	0	0	0	0	\$2,890	38.7%

Gateway, Inc.
Consolidated Statements of
Cash Flows
(in millions of dollars)

	1998	1997	1996	1995	1994	1993
Operating:						
Net income (loss)	\$ 346	\$ 110	\$ 251	\$ 173	\$ 96	\$ 151
Depreciation and amortization expense	106	87	62	38	18	8
Deferred income taxes	(58)	(63)	(13)	(24)	(1)	
Nonrecurring expenses		114				
Change in accounts receivable	(52)	(42)	(66)	(158)	(94)	(48)
Change in inventory	81	59	(54)	(121)	44	(84)
Change in accounts payable	229	66	177	52	57	63
Other	256	112	127	111	82	40
Cash generated by operating activities	\$ 908	\$ 443	\$ 484	\$ 71	\$ 202	\$ 130
Investing:						
Capital expenditures	\$(235)	\$(176)	\$(144)	\$(78)	\$(29)	\$(36)
Purchase of available-for-sale securities	(169)	(50)		(51)	(206)	(18)

Gateway, Inc.
Consolidated Statements of
Cash Flows
(in millions of dollars)
(continued)

	1998	1997	1996	1995	1994	1993
Proceeds from sale of available-for-sale securities	49	11	3	38	166	
Acquisition of technology		(142)		(4)		(3)
Other	(1)	(4)	3	(13)		
Cash used for investing activities	\$ (356)	\$(361)	\$(138)	\$(108)	\$(69)	\$(57)
Financing:						
Proceeds from notes payable		\$ 10	\$ 10	\$ 5		\$ 18
Payments on long-term liabilities	(13)	(16)	(14)	(25)	(5)	(12)
Dividends					(28)	164
Stock options exercised	36	6	9	9		(145)
Cash generated by financing activities	\$ 23	\$ —	\$ 5	\$(11)	\$(33)	\$ 25
Foreign exchange effect on cash	1	(5)	(1)			
Total cash generated (used)	\$ 576	\$ 77	\$ 350	\$(48)	\$ 100	\$ 98
Cash and cash equivalent, beginning of year	\$ 594	\$ 517	\$ 166	\$ 214	\$ 114	\$ 16
Cash and cash equivalents, end of year	\$1,170	\$ 594	\$ 516	\$ 166	\$ 214	\$ 114

Gateway Income Statements
(in millions)

	1998	1997	1996	1995	1994
Sales revenue	\$7,467	\$6,293	\$5,035	\$3,676	\$2,701
Cost of goods sold	5,921	5,217	4,099	3,070	2,343
Gross profit	1,546	1,076	936	606	358
Selling, general, and administrative expenses	1,052	900	580	357	218
Operating income	494	176	356	249	140
Other, net	46	27	26	13	5
Income before taxes	540	203	382	262	145
Provision for taxes	194	93	132	90	50
Net income	\$ 346	\$ 110	\$ 250	\$ 172	\$ 95

Gateway AVERAGE Balance
Sheets (in millions)

	1998	1997	1996	1995	1994
Cash	\$ 881.00	\$ 554.50	\$ 341.00	\$ 190.00	\$ 163.50
Short-term investments	98.00	19.00	1.50	16.00	23.50
Accounts receivable	534.00	479.50	427.50	329.50	211.50
Inventory	208.00	263.50	251.00	172.00	148.50
Other current assets	165.00	114.50	71.00	50.00	27.50
Total current assets	1,886.00	1,431.00	1,092.00	757.50	574.50

Gateway AVERAGE Balance
Sheets (in millions)
(continued)

	1998	1997	1996	1995	1994
Property, plant, and equipment	433.00	289.00	206.00	129.50	74.50
Intangible assets	93.00	99.00	68.00	43.00	15.00
Other assets	52.50	37.00	32.50	17.00	3.00
Total assets	\$2,464.50	\$1,856.00	\$1,398.50	\$947.00	\$667.00
Notes payable	\$12.00	\$14.00	\$14.00	\$8.00	\$4.00
Accounts payable	603.00	449.50	323.50	210.00	155.00
Accrued liabilities	343.00	230.50	150.00	83.50	40.50
Other current liabilities	258.00	207.00	174.50	135.00	101.50
Total current liabilities	1,216.00	901.00	662.00	436.50	301.00
Long-term liabilities	5.00	7.00	9.00	19.00	28.00
Warranty liability	106.00	75.00	41.50	25.50	9.50
Total Liabilities	1,327.00	983.00	712.50	481.00	338.50
Common stock	2.00	2.00	1.50	1.00	1.00
Additional paid-in-capital	332.00	293.50	284.00	277.00	274.50
Retained earnings	808.00	580.00	400.50	188.00	53.00
Other equity adjustments	(4.50)	(2.50)	—	—	—
Total shareholders' equity	1,137.50	873.00	686.00	466.00	328.50
Total liabilities and shareholders' equity	\$2,464.50	\$1,856.00	\$1,398.50	\$947.00	\$667.00

Cash Flow Data

	1998	1997	1996	1995	1994
Cash flow from operations	\$908	\$443	\$484	\$71	\$202
Fixed asset purchases	235	176	144	78	29
Long-term debt repayment	13	16	14	25	5
Cash dividends	—	—	—	—	28
Depreciation and amortization	106	87	62	38	18

Market Data

	1998	1997	1996	1995	1994
High market price	\$ 34.40	\$ 23.10	\$ 16.60	\$ 9.40	\$ 6.20
Low market price	\$ 15.50	\$ 11.80	\$ 4.50	\$ 4.00	\$ 2.30
Number of shares outstanding (millions)	313.14	307.02	298.09	298.21	289.58
Market capitalization	\$7,812.84	\$5,357.50	\$3,144.85	\$1,998.01	\$1,230.72

Gateway, Inc. Ratios

	1998	1997	1996	1995	1994
Working capital	\$670.00	\$530.00	\$430.00	\$321.00	\$273.50
Working capital ratio	1.55	1.59	1.65	1.74	1.91
Quick ratio	1.24	1.17	1.16	1.23	1.32
Inventory turnover	28.47	19.80	16.33	17.85	15.78

Liquidity Ratios (continued)

	1998	1997	1996	1995	1994
Days in inventory	12.82	18.44	22.35	20.45	23.13
Accounts receivable turnover	13.98	13.12	11.78	11.16	12.77
Days in accounts receivable	26.10	27.81	30.99	32.72	28.58
Inventory conversion cycle	38.93	46.25	53.34	53.17	51.71
Accounts payable turnover	9.82	11.61	12.67	14.62	15.12
Days in accounts payable	37.17	31.45	28.81	24.97	24.15
Net cash conversion cycle	1.75	14.80	24.53	28.20	27.57
Cash + short-term investments	979.00	573.50	342.50	206.00	187.00
A/R*days in accounts receivable	13,938.92	13,335.59	13,248.47	10,780.23	6,044.90
Inventory*days in inventory	2,667.01	4,857.73	5,609.99	3,517.32	3,435.37
Product dollar days	17,584.93	18,766.82	19,200.96	14,503.55	9,667.27
Current assets-other current assets	1,721.00	1,316.50	1,021.00	707.50	547.00
Liquidity index	10.22	14.26	18.81	20.50	17.67

Cash Flow Ratios

	1998	1997	1996	1995	1994
Cash flow adequacy	3.66	2.31	3.06	0.69	3.26
Reinvestment ratio	0.26	0.40	0.30	1.10	0.14
Long-term debt repayment	0.01	0.04	0.03	0.35	0.02
Dividend payout	—	—	—	—	0.14
Free cash flow	660.00	251.00	326.00	(32.00)	168.00
Depreciation impact ratio	0.12	0.20	0.13	0.54	0.09
Recapitalization index	2.22	2.02	2.32	2.05	1.61
Cash flow return on assets	0.37	0.24	0.35	0.07	0.30
Cash flow return on sales	0.12	0.07	0.10	0.02	0.07
Operations index	1.84	2.52	1.36	0.29	1.44

Asset Utilization Ratios

	1998	1997	1996	1995	1994
Profit margin	4.634%	1.748%	4.965%	4.679%	3.517%
Asset turnover	3.030	3.391	3.600	3.882	4.049
Financial structure leverage	2.167	2.126	2.039	2.032	2.030
Return on assets	14.04%	5.93%	17.88%	18.16%	14.24%
Return on equity	30.42%	12.60%	36.44%	36.91%	28.92%

Capital Structure Ratios

	1998	1997	1996	1995	1994
Debt to capital	0.54	0.53	0.51	0.51	0.51
Debt to equity	1.17	1.13	1.04	1.03	1.03
Long-term debt to capital	0.05	0.04	0.04	0.05	0.06
Long-term debt to equity	0.10	0.09	0.07	0.10	0.11
Working capital/total assets-Z1	0.33	0.34	0.37	0.41	0.49
Retained earnings/total assets-Z2	0.46	0.44	0.40	0.28	0.11
EBIT/total assets-Z3	0.66	0.31	0.84	0.87	0.69
Sales/total assets-Z4	3.03	3.39	3.60	3.88	4.05
Market to book-Z5	3.53	3.27	2.65	2.49	2.18
Z-Score	8.01	7.75	7.86	7.93	7.53

Market Data

	1998	1997	1996	1995	1994
Price to earnings	22.58	48.70	12.58	11.62	12.95