

INTERNATIONAL BUSINESS MACHINES CORP

Form 10-Q

April 24, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10 - Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED MARCH 31, 2012

1-2360

(Commission file number)

INTERNATIONAL BUSINESS MACHINES CORPORATION

(Exact name of registrant as specified in its charter)

New York

(State of incorporation)

13-0871985

(IRS employer identification number)

Armonk, New York

(Address of principal executive offices)

10504

(Zip Code)

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914-499-1900

(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The registrant has 1,153,484,394 shares of common stock outstanding at March 31, 2012.

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Table of Contents**PART I - Financial Information****ITEM 1. Consolidated Financial Statements:****INTERNATIONAL BUSINESS MACHINES CORPORATION
AND SUBSIDIARY COMPANIES****CONSOLIDATED STATEMENT OF EARNINGS
(UNAUDITED)**

(Dollars in millions except per share amounts)	Three Months Ended March 31,	
	2012	2011
Revenue:		
Services	\$ 14,820	\$ 14,696
Sales	9,356	9,387
Financing	497	524
Total revenue	24,673	24,607
Cost:		
Services	9,985	10,116
Sales	3,325	3,390
Financing	244	243
Total cost	13,555	13,749
Gross profit	11,118	10,858
Expense and other income:		
Selling, general and administrative	5,886	5,826
Research, development and engineering	1,601	1,587
Intellectual property and custom development income	(255)	(262)
Other (income) and expense	(58)	(202)
Interest expense	110	93
Total expense and other income	7,283	7,041
Income before income taxes	3,836	3,817
Provision for income taxes	769	954
Net income	\$ 3,066	\$ 2,863
Earnings per share of common stock:		
Assuming dilution	\$ 2.61	\$ 2.31
Basic	\$ 2.65	\$ 2.34
Weighted-average number of common shares outstanding: (millions)		
Assuming dilution	1,174.2	1,240.0
Basic	1,159.1	1,222.2
Cash dividend per common share	\$ 0.75	\$ 0.65

(Amounts may not add due to rounding.)

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(The accompanying notes are an integral part of the financial statements.)

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**INTERNATIONAL BUSINESS MACHINES CORPORATION
AND SUBSIDIARY COMPANIES**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)**

(Dollars in millions)	Three Months Ended March 31,	
	2012	2011
Net income	\$ 3,066	\$ 2,863
Other comprehensive income/(loss), before tax:		
Foreign currency translation adjustments	387	477
Net changes related to available-for-sale securities		
Unrealized gains/(losses) arising during the period	6	(7)
Reclassification of (gains)/losses to net income	(14)	(203)
Subsequent changes in previously impaired securities arising during the period	18	11
Total net changes related to available-for-sale securities	10	(199)
Unrealized gains/(losses) on cash flow hedges		
Unrealized gains/(losses) arising during the period	51	(237)
Reclassification of (gains)/losses to net income	(24)	101
Total unrealized gains/(losses) on cash flow hedges	27	(136)
Retirement-related benefit plans		
Prior service costs/(credits)	0	(1)
Net (losses)/gains arising during the period	(6)	20
Curtailments and settlements	0	9
Amortization of prior service (credits)/cost	(37)	(39)
Amortization of net (gains)/losses	619	473
Total retirement-related benefit plans	576	464
Other comprehensive income/(loss), before tax	1,000	606
Income tax (expense)/benefit related to items of other comprehensive income	(229)	20
Other comprehensive income/(loss)	770	624
Total comprehensive income	\$ 3,837	\$ 3,487

(Amounts may not add due to rounding)

(The accompanying notes are an integral part of the financial statements)

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**INTERNATIONAL BUSINESS MACHINES CORPORATION
AND SUBSIDIARY COMPANIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(UNAUDITED)**

ASSETS

(Dollars in millions)	At March 31, 2012	At December 31, 2011
Assets:		
Current assets:		
Cash and cash equivalents	\$ 11,835	\$ 11,922
Marketable securities	500	0
Notes and accounts receivable - trade (net of allowances of \$272 in 2012 and \$256 in 2011)	10,012	11,179
Short-term financing receivables (net of allowances of \$282 in 2012 and \$311 in 2011)	15,160	16,901
Other accounts receivable (net of allowances of \$9 in 2012 and \$11 in 2011)	1,669	1,481
Inventories, at lower of average cost or market:		
Finished goods	696	589
Work in process and raw materials	2,058	2,007
Total inventories	2,754	2,595
Deferred taxes	1,617	1,601
Prepaid expenses and other current assets	5,299	5,249
Total current assets	48,847	50,928
Property, plant and equipment	40,441	40,124
Less: Accumulated depreciation	26,496	26,241
Property, plant and equipment - net	13,946	13,883
Long-term financing receivables (net of allowances of \$58 in 2012 and \$38 in 2011)	10,549	10,776
Prepaid pension assets	2,974	2,843
Deferred taxes	3,100	3,503
Goodwill	27,468	26,213
Intangible assets - net	3,641	3,392
Investments and sundry assets	4,822	4,895
Total assets	\$ 115,347	\$ 116,433

(Amounts may not add due to rounding.)

(The accompanying notes are an integral part of the financial statements.)

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**INTERNATIONAL BUSINESS MACHINES CORPORATION
AND SUBSIDIARY COMPANIES**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
(UNAUDITED)**

LIABILITIES AND EQUITY

(Dollars in millions)	At March 31, 2012	At December 31, 2011
Liabilities:		
Current liabilities:		
Taxes	\$ 2,184	\$ 3,313
Short-term debt	6,293	8,463
Accounts payable	7,416	8,517
Compensation and benefits	4,370	5,099
Deferred income	13,269	12,197
Other accrued expenses and liabilities	4,677	4,535
Total current liabilities	38,209	42,123
Long-term debt	25,760	22,857
Retirement and nonpension postretirement benefit obligations	17,579	18,374
Deferred income	3,904	3,847
Other liabilities	9,112	8,996
Total liabilities	94,563	96,197
Equity:		
IBM stockholders' equity:		
Common stock, par value \$0.20 per share, and additional paid-in capital	48,800	48,129
Shares authorized: 4,687,500,000		
Shares issued: 2012 - 2,188,158,632		
2011 - 2,182,469,838		
Retained earnings	107,036	104,857
Treasury stock - at cost	(114,020)	(110,963)
Shares: 2012 - 1,034,674,238		
2011 - 1,019,287,274		
Accumulated other comprehensive income/(loss)	(21,115)	(21,885)
Total IBM stockholders' equity	20,701	20,138
Noncontrolling interests	82	97
Total equity	20,783	20,236
Total liabilities and equity	\$ 115,347	\$ 116,433

(Amounts may not add due to rounding.)

(The accompanying notes are an integral part of the financial statements.)

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**INTERNATIONAL BUSINESS MACHINES CORPORATION
AND SUBSIDIARY COMPANIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31,**

(UNAUDITED)

(Dollars in millions)	2012	2011*
Cash flows from operating activities:		
Net income	\$ 3,066	\$ 2,863
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation	847	918
Amortization of intangibles	310	310
Stock-based compensation	168	170
Net (gain)/loss on asset sales and other	(143)	(320)
Changes in operating assets and liabilities, net of acquisitions/divestitures	43	(147)
Net cash provided by operating activities	4,291	3,792
Cash flows from investing activities:		
Payments for property, plant and equipment	(937)	(1,002)
Proceeds from disposition of property, plant and equipment	95	87
Investment in software	(160)	(143)
Acquisition of businesses, net of cash acquired	(1,319)	(51)
Non-operating finance receivables net	636	541
Purchases of marketable securities and other investments	(1,227)	(415)
Proceeds from disposition of marketable securities and other investments	681	1,481
Net cash provided by/(used in) investing activities	(2,230)	498
Cash flows from financing activities:		
Proceeds from new debt	3,906	1,054
Payments to settle debt	(848)	(1,539)
Short-term borrowings/(repayments) less than 90 days net	(2,107)	2,135
Common stock repurchases	(3,015)	(4,045)
Common stock transactions other	619	877
Cash dividends paid	(870)	(795)
Net cash used in financing activities	(2,316)	(2,314)
Effect of exchange rate changes on cash and cash equivalents	167	126
Net change in cash and cash equivalents	(87)	2,102
Cash and cash equivalents at January 1	11,922	10,661
Cash and cash equivalents at March 31	\$ 11,835	\$ 12,763

* Reclassified to conform with 2012 presentation.

(Amounts may not add due to rounding.)

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(The accompanying notes are an integral part of the financial statements.)

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**INTERNATIONAL BUSINESS MACHINES CORPORATION
AND SUBSIDIARY COMPANIES**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(UNAUDITED)

(Dollars in millions)	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income/(Loss)	Total IBM Stockholders Equity	Non- Controlling Interests	Total Equity
Equity - January 1, 2012	\$ 48,129	\$ 104,857	\$ (110,963)	\$ (21,885)	\$ 20,138	\$ 97	\$ 20,236
Net income plus other comprehensive income/(loss)							
Net income		3,066			3,066		3,066
Other comprehensive income/(loss)				770	770		770
Total comprehensive income/(loss)					\$ 3,837		\$ 3,837
Cash dividends declared common stock		(870)			(870)		(870)
Common stock issued under employee plans (5,688,794 shares)	495				495		495
Purchases (864,073 shares) and sales (1,021,123 shares) of treasury stock under employee plans net		(18)	(54)		(72)		(72)
Other treasury shares purchased, not retired (15,544,014 shares)			(3,003)		(3,003)		(3,003)
Changes in other equity	176				176		176
Changes in noncontrolling interests						(15)	(15)
Equity - March 31, 2012	\$ 48,800	\$ 107,036	\$ (114,020)	\$ (21,115)	\$ 20,701	\$ 82	\$ 20,783

(Dollars in millions)	Common Stock and Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income/(Loss)	Total IBM Stockholders Equity	Non- Controlling Interests	Total Equity
Equity - January 1, 2011	\$ 45,418	\$ 92,532	\$ (96,161)	\$ (18,743)	\$		