INTERNATIONAL BUSINESS MACHINES CORP
Form 10-Q
May 15, 2002

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, 2002

1-2360
(Commission file number)

INTERNATIONAL BUSINESS MACHINES CORPORATION
(Exact name of registrant as specified in its charter)

NEW YORK	13-0871985
(State of incorporation)	(IRS employer identification number)
ARMONK, NEW YORK	10504
(Address of principal executive offices)	(Zip Code)

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 /X/ No / /

The registrant has 1,711,889,435 shares of common stock outstanding at March 31, 2002.

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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, 2002	2001*
REVENUE:		
Global Services	$ 8,229	$ 8,471
Hardware	6,405	8,547
Software	2,897	2,918
Global Financing	783	832
Enterprise Investments/Other	237	276
TOTAL REVENUE	18,551	21,044
COST:		
Global Services	6,093	6,311
Hardware	5,029	5,969
Software	549	579
Global Financing	340	438
Enterprise Investments/Other	104	139
TOTAL COST	12,115	13,436
GROSS PROFIT	6,436	7,608
EXPENSE AND OTHER INCOME:		
Selling, general and administrative	4,053	4,119
Research, development and engineering	1,200	1,281
Intellectual property and custom development income	(333)	(277)
Other (income) and expense	(205)	(76)
Interest expense	30	72

TOTAL EXPENSE AND OTHER INCOME	4,745	5,119
INCOME BEFORE INCOME TAXES	1,691	2,489
Provision for income taxes	499	739
NET INCOME	1,192	1,750
Preferred stock dividends	-	5
NET INCOME APPLICABLE TO COMMON SHAREHOLDERS	$ 1,192	$ 1,745

* Reclassified to conform with 2002 presentation.
(The accompanying notes are an integral part of the financial statements.)

INTERNATIONAL BUSINESS MACHINES CORPORATION
AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF EARNINGS - (CONTINUED)
(UNAUDITED)

	Three Months Ended MARCH 31, 2002	2001
EARNINGS PER SHARE OF COMMON STOCK:		
Assuming dilution	$ 0.68	$ 0.98
Basic	$ 0.69	$ 1.00
AVERAGE NUMBER OF COMMON SHARES OUTSTANDING: (MILLIONS)		
Assuming dilution	1,753.0	1,781.2
Basic	1,718.4	1,740.9
CASH DIVIDENDS PER COMMON SHARE	$ 0.14	$ 0.13

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

INTERNATIONAL BUSINESS MACHINES CORPORATION
AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

(Dollars in millions)	At March 31, 2002 (UNAUDITED)	At December 31, 2001*
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,833	$ 6,330
Marketable securities -- at fair value, which approximates market value	134	63
Notes and accounts receivable -- trade, net of allowances	8,325	9,101
Short-term financing receivables	14,555	16,656
Other accounts receivable	1,238	1,261
Inventories, at lower of average cost or net realizable value		
Finished goods	1,270	1,259
Work in process and raw materials	3,137	3,045
Total inventories	4,407	4,304
Deferred taxes	2,332	2,402
Intangible assets	94	122
Prepaid expenses and other current assets	2,467	2,222
Total current assets	37,385	42,461
Plant, rental machines and other property	39,375	38,375
Less: Accumulated depreciation	22,746	21,871
Plant, rental machines and other property -- net	16,629	16,504
Long-term financing receivables	11,745	12,246
Intangible assets	350	356
Goodwill	1,436	1,278
Investments and sundry assets	15,511	15,468
TOTAL ASSETS	$83,056	$88,313

* Reclassified to conform with 2002 presentation

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

INTERNATIONAL BUSINESS MACHINES CORPORATION
AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION - (CONTINUED)

LIABILITIES AND STOCKHOLDERS' EQUITY

(Dollars in millions except	At March 31, 2002	At

per share amounts)	(UNAUDITED)
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Taxes	$ 4,235
Short-term debt	8,243
Accounts payable and accruals	17,606
Total current liabilities	30,084
Long-term debt	16,665
Other liabilities	13,256
TOTAL LIABILITIES	60,005
STOCKHOLDERS' EQUITY:	
Common stock - par value $.20 per share	14,444
Shares authorized: 4,687,500,000	
Shares issued: 2002 - 1,916,363,067	
2001 - 1,913,513,218	
Retained earnings	31,037
Treasury stock - at cost	(21,549)
Shares: 2002 - 204,473,632	
2001 - 190,319,489	
Accumulated gains and losses not affecting retained earnings	(881)
TOTAL STOCKHOLDERS' EQUITY	23,051
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 83,056

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

INTERNATIONAL BUSINESS MACHINES CORPORATION
AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31,
(UNAUDITED)

(Dollars in millions)	2002	2001
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	$ 1,192	$ 1,750
Adjustments to reconcile net income to		

cash provided from operating activities:		
Depreciation	992	1,084
Amortization of software	175	149
(Gain)/loss on disposition of fixed and other assets	(128)	55
Changes in operating assets and liabilities	424	(1,103)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	2,655	1,935
CASH FLOW FROM INVESTING ACTIVITIES:		
Payments for plant, rental machines and other property, net of proceeds	(1,111)	(1,276)
Investment in software	(140)	(134)
Purchases of marketable securities and other investments	(273)	(74)
Proceeds from marketable securities and other investments	67	102
NET CASH USED IN INVESTING ACTIVITIES	(1,457)	(1,382)
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from new debt	978	578
Payments to settle debt	(369)	(1,052)
Short-term (repayments)/borrowings less than 90 days--net	(2,611)	1,364
Common stock transactions -- net	(1,435)	(926)
Cash dividends paid	(241)	(234)
NET CASH USED IN FINANCING ACTIVITIES	(3,678)	(270)
Effect of exchange rate changes on cash and cash equivalents	(17)	(53)
Net change in cash and cash equivalents	(2,497)	230
Cash and cash equivalents at January 1	6,330	3,563
CASH AND CASH EQUIVALENTS AT MARCH 31	$ 3,833	$ 3,793

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. In the opinion of the management of International Business Machines Corporation (the company), all adjustments, which are of a normal recurring nature, necessary to a fair statement of the results for the unaudited three-month periods have been made.

2. The following table summarizes Net income plus gains and losses not affecting retained earnings.

(Dollars in millions)	Three Months Ended MARCH 31, 2002	2001*
Net Income	$ 1,192	$ 1,750
Gains and losses not affecting retained earnings (net of tax):		
Foreign currency translation adjustments	(180)	(370)
Minimum pension liability adjustments	22	(4)
Net unrealized (losses)/gains on marketable securities	(8)	(1)
Net unrealized gains/(losses) on cash flow hedge derivatives	(53)	507
Total gains and (losses) not affecting retained earnings	(219)	132
Net income plus gains and losses not affecting retained earnings	$ 973	$ 1,882

* Reclassified to conform with 2002 presentation.

3. On January 1, 2002, the company adopted Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses significant issues relating to the implementation of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of," and develops a single accounting model, based on the framework established in SFAS No. 121 for long-lived assets to be disposed of by sale, whether such assets are or are not deemed to be a business. SFAS No. 144 also modifies the accounting and disclosure rules for discontinued operations. The adoption of this standard did not have a material effect on the financial statements.

On January 1, 2002, the company adopted Emerging Issues Task Force Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out of Pocket' Expenses Incurred." This guidance requires companies to recognize the recovery of reimbursable expenses such as travel costs on services contracts as revenue. These costs are not to be netted as a reduction of cost. The adoption of this guidance did not have a material effect on the Consolidated Statement of Earnings.

In August 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 provides accounting and reporting guidance for obligations associated with the retirement of long-lived assets that result from the acquisition, construction or normal operations of a long-lived asset. The standard is effective January 1, 2003. The company is reviewing the provisions of this standard. Its adoption is not expected to have a material effect on the financial statements.

4. In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets." This standard eliminates the amortization of goodwill, requires annual impairment testing of goodwill and introduces the concept of indefinite life intangible assets. The new rules also prohibit the amortization of goodwill associated with business combinations that close after June 30, 2001. An initial impairment test of goodwill must be performed in 2002 as of January 1, 2002. The company completed this initial transition impairment test and determined that its goodwill is not impaired.

The changes in the carrying amount of goodwill, by external reporting segment, for the quarter ended March 31, 2002, are as follows:

Segment	Balance 1/1/02	Assembled Workforce Reclass(*)	Goodwill Additions	Purchase Price Adjustments	F C Tr Ad
Global Services	$ 325	$ -	$ 11	$ -	
Enterprise Systems	111	26	-	-	
Personal and Printing Systems	13	-	-	-	
Technology	102	5	-	-	
Software	727	2	130	(8)	
Global Financing	-	-	-	-	
Enterprise Investments	-	-	-	-	
Total	$1,278	$ 33	$ 141	$ (8)	

(*) In accordance with SFAS No. 141, "Business Combinations," the unamortized balance for acquired assembled workforce, which had been recognized as an intangible asset separate from goodwill, has been reclassified to goodwill effective January 1, 2002.

There were no goodwill impairment losses recorded during the quarter and there was no goodwill written off as a result of divestitures during the quarter.

The following table presents the prior period's reported net income adjusted to exclude goodwill amortization, which is no longer recorded under SFAS No. 142.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

(Dollars in millions except per share amounts)	Three Months Ended March 31, 2001

Reported net income	$ 1,750
Add: Goodwill amortization, net of tax effects	75
Adjusted net income	$ 1,825
BASIC EARNINGS PER SHARE:	
Reported net income	$ 1.00
Goodwill amortization	0.04
Adjusted basic earnings per share	$ 1.04
DILUTED EARNINGS PER SHARE:	
Reported net income	$ 0.98
Goodwill amortization	0.04
Adjusted diluted earnings per share	$ 1.02

SFAS No. 141 specifies certain criteria for identifying, valuing and recording intangible assets separate from goodwill. SFAS No. 142 prescribes the disclosure requirements for intangible assets that meet these criteria. The following schedule details the company's intangible asset balances by major asset class:

(Dollars in millions) Intangible Asset Class	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount At 3/31/02
Customer-related	$ 310	$ (76)	$ 234
Completed technology	212	(65)	147
Patents/Trademarks	111	(63)	48
Other(a)	43	(28)	15
Total	$ 676	$(232)	$ 444

(a) Other intangibles are primarily contract-related assets such as employee agreements and leasehold interests.

The net carrying amount of intangible assets decreased $34 million during the first quarter of 2002 due to the amortization of existing intangible asset balances and the reclassification of acquired assembled workforce to goodwill effective January 1, 2002, offset by identified intangible assets recorded as a result of the CrossWorlds acquisition.

The aggregate amortization expense was $40 million and $100 million for the quarter ended March 31, 2002 and for year ended December 31, 2001, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

The amortization expense related to intangible assets currently recorded on the company's books for each of the five succeeding years is estimated to be the following at December 31,:

2002	$ 160 million includes 1Q02 amortization
2003	$ 148 million
2004	$ 108 million
2005	$ 45 million
2006	$ 23 million

5. On January 11, 2002, the company acquired all of the outstanding stock of CrossWorlds Software, Inc., for $138 million. CrossWorlds is a leading provider of software that enables companies to automate business processes that integrate multiple applications, such as those for managing customer relationships and supply chains, as well as to integrate business processes unique to individual industries such as telecommunications, financial services, and industrial sectors. The acquisition better enables the company to participate in the emerging Business Process Management (BPM) opportunity. The transaction was completed in the first quarter of 2002 from which time the results of this acquisition were included in the company's consolidated financial statements.

The allocation of the purchase price for this acquisition is presented in the following table:

(dollars in millions)	Amortization Life (yrs.)	Amount
Current assets		$ 27
Fixed assets		7
Intangible assets:		
Completed technology	3	33
Customer lists	5	5
Other intangibles	5	1
Goodwill		130
In-process research & development		2
Total assets acquired		205
Payables/accrued Expenses		(54)
Deferred tax liability		(13)
Total liabilities assumed		(67)
Net assets acquired		$ 138

The overall weighted-average life of the identified intangible assets acquired in the purchase of CrossWorlds is 3.3 years. With the exception of goodwill, these identified intangible assets will be amortized on a straight-line basis over their useful lives. Goodwill of 130 million has been assigned to the Software segment. None of the goodwill is deductible for tax purposes. The primary items that generated this goodwill are the value of the acquired assembled workforce and the synergies between CrossWorlds and IBM. The acquisition was accounted for as a purchase transaction, and accordingly, the assets and liabilities of the acquired entities were

recorded at their estimated fair values at the date of the acquisition. The company recorded a pretax charge of $2 million for in-process research and development. This amount, which reflects the relative value and contribution of the acquired research and development to the company's existing research or product lines, was charged to research, development, and engineering expense on the company's Consolidated Statement of Earnings.

6. The tables on pages 29 and 30 of this Form 10-Q reflect the results of the company's segments consistent with its management system used by the company's chief operating decision maker. These results are not necessarily a depiction that is in conformity with generally accepted accounting principles (GAAP), e.g., employee retirement plan costs are developed using actuarial assumptions on a country-by-country basis and allocated to the segments on headcount. A different result could occur for any segment if actuarial assumptions unique to each segment were used. Performance measurement is based on income before income taxes (pre-tax income). These results are used, in part, by management, both in evaluating the performance of, and in allocating resources to, each of the segments.

7. The following table provides the liability balances for restructuring actions that the company took through 1993 and special actions in 1999:

	Liability as of 12/31/2001	Payments	Other Adj.(c)	Liability as of 3/31/2002
Current:				
Workforce (a)	$ 87	$ 26	$ 13	$ 74
Space (b)	65	17	15	63
Total	$ 152	$ 43	$ 28	$ 137
Non-current:				
Workforce (a)	$ 385	$ -	$ (20)	$ 365
Space (b)	204	-	(19)	185
Total	$ 589	$ -	$ (39)	$ 550

(a) Workforce accruals relate to terminated employees who are no longer working for the company, but who were granted annual payments to supplement their state pensions in certain countries. These contractually required payments will continue until the former employee dies.
(b) Space accruals are for ongoing obligations to pay rent for vacant space that could not be sublet or space that was sublet at rates lower than the committed lease arrangement. The length of these obligations varies by lease with the longest extending through 2012.
(c) Principally represents reclassification of non-current to current and currency translation adjustments.

8. Subsequent Events: On April 16, 2002, Hitachi, Ltd. and IBM announced plans to create a new, standalone company that will integrate various hard disk drive (HDD) operations from research and development through sales and marketing. An additional initiative contemplates the companies working together on a common architecture for future storage subsystems to improve interoperability and lower customer costs. Negotiations are underway on the terms of an agreement.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)

On April 30, 2002, the company announced that the Board of Directors approved an increase in the quarterly dividend of 7 percent from $.14 to $.15 per common share. The dividend is payable June 10, 2002, to shareholders of record on May 10, 2002.

On April 30, 2002, the Board of Directors authorized the company to repurchase up to an additional $3.5 billion of IBM common shares. The company plans to repurchase the shares in the open market from time to time, based on market conditions.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION FOR THE THREE MONTHS ENDED MARCH 31, 2002

The first quarter financial results, while disappointing, were largely the result of the continued weak global business environment. Customers deferred technology purchases in the first quarter, and such deferrals impacted the company across many of its major business segments.

Even within this tough climate, the company generated $1.7 billion in pre-tax income, had strong services signings of more than $15 billion, and believes it gained or held share in most of its high-priority businesses. The company is pleased that, despite the difficult business conditions, it continued to maintain its leadership.

While no one can predict the timing of a recovery, the company remains optimistic that business conditions will improve later this year. The company's customers believe that information technology remains critical to the success of their businesses, and that they will continue to embrace the company's e-business strategies, its products and its services. The company remains confident about the fundamental strength of its business and its prospects for the future.

RESULTS OF OPERATIONS

(Dollars in millions except per share amounts)	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Revenue	$18,551	$21,044
Cost	12,115	13,436

Gross profit	$ 6,436	$ 7,608
Gross profit margin	34.7%	36.1%
Net income	$ 1,192	$ 1,750
Earnings per share of common stock:		
Assuming dilution	$ 0.68	$ 0.98
Basic	$ 0.69	$ 1.00

RESULTS OF OPERATIONS - (CONTINUED)

The average number of common shares outstanding assuming dilution was lower by 28.2 million than the first quarter of 2001, primarily as a result of the company's share repurchase program. The average number of shares assuming dilution was 1,753.0 million in the first quarter of 2002 and 1,781.2 million for the first quarter of 2001. There were 1,711.9 million shares outstanding at March 31, 2002.

Revenue for the three months ended March 31, 2002 decreased 11.8 percent from the same period last year (9 percent at constant currency). Global Services revenue, including maintenance, declined 2.9 percent (up 1 percent at constant currency) in the first quarter to $8.2 billion. The company signed more than $15 billion in services contracts in the first quarter.

Hardware revenue decreased 25.1 percent (23 percent at constant currency) to $6.4 billion compared with the first quarter of 2001. Revenue from Enterprise Systems declined due to customers deferring purchases and price pressures. Personal computer revenue declined in the first quarter, reflecting continued weak industry demand. Technology revenue, which includes hard disk drives (HDD) and microelectronics, decreased substantially from the prior year's quarter, reflecting ongoing weakness in both product areas.

Software revenue decreased 0.7 percent (up 3 percent at constant currency) to $2.9 billion. Middleware revenue, which comprises 80 percent of the company's software revenue, grew 2 percent (6 percent at constant currency) and operating systems software declined 10 percent (7 percent at constant currency) year over year.

Global Financing revenue decreased 5.9 percent (3 percent at constant currency) in the first quarter to $783 million. Revenue from the Enterprise Investments/Other area, which includes industry-specific IT solutions, declined 14.3 percent (10 percent at constant currency) to $237 million compared with the first quarter of 2001.

In the Americas, first-quarter revenue was $8.1 billion, a decrease of 9.2 percent (8 percent at constant currency) from the same period last year. Revenue from Europe/Middle East/Africa was $5.1 billion, down 8.5 percent (4 percent at constant currency). Asia-Pacific revenue declined 9.4 percent (3 percent at constant currency) to $3.9 billion. OEM revenue across all geographies was $1.3 billion, a 37.1 percent decrease (37 percent at constant currency) compared with the first quarter of 2001.

The company's total gross profit margin was 34.7 percent in the first quarter of 2002 compared with 36.1 percent in the first quarter of 2001. A nearly nine-point reduction in the hardware margin offset increases in all other revenue categories.

In the first quarter, total expense and other income improved 7.3 percent to $4.7 billion. Selling, general and administrative (SG&A) expense declined 1.6 percent and research, development and engineering expense declined 6.3 percent, both reflecting the continued reduction in discretionary spending. SG&A expense results also included the absorption of higher expenses for workforce-balancing initiatives and provisions for bad debt expense. In addition, the company's results benefited from lower write downs of equity investments, the elimination of the amortization of goodwill and the sale of the personal computer desktop manufacturing operations to Sanmina-SCI, higher intellectual property income and lower interest expense.

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RESULTS OF OPERATIONS - (CONTINUED)

The company's tax rate in the first quarter was 29.5 percent compared with 29.7 percent in the first quarter of last year.

GLOBAL SERVICES

(Dollars in millions)	Three Months Ended March 31, 2002	2001
Total revenue	$8,229	$8,471
Total cost	6,093	6,311
Gross profit	$2,136	$2,160
Gross profit margin	26.0%	25.5%

Global Services revenue, including maintenance, decreased 2.9 percent (up 1 percent at constant currency) in the first quarter of 2002 compared with the same period last year. Global Services revenue, excluding maintenance, declined 3.2 percent (up 1 percent at constant currency). Maintenance revenue declined 1.0 percent (up 3 percent at constant currency) in the first quarter of 2002 versus the same period in 2001.

Strategic Outsourcing Services revenue increased as demand remained strong. Strategic Outsourcing Services is attractive to customers in both good and bad economies as customers focus on cost reductions. Integrated Technology Services, excluding maintenance, declined slightly as revenue in support of non-IBM hardware deployment continues to moderate due to the slowdown in the personal computer and telecommunications industries and networking equipment providers. Revenue for management services, such as business recovery, technical support and infrastructure and systems management continued to grow. Business Innovation Services (BIS) revenue declined as it was affected the most by the slowdown in the economy. Despite the slowdown in the BIS market, especially in the Americas, customers continue to deploy e-business applications such as e-business integration and enterprise resource planning (ERP). The company signed more than $15 billion in services contracts in the first quarter of 2002, the largest first quarter signings in the company's history. These signings included ten deals over $100 million each including two deals over $1 billion. The services backlog at March 31, 2002, stands at approximately $108 billion.

Global Services gross profit dollars decreased 1.1 percent in the first quarter of 2002, compared with the year-ago period. The gross profit margin improved 0.5 points in the first quarter of 2002 versus last year. The increase in gross profit margin was primarily driven by lower labor and parts costs for maintenance offerings.

HARDWARE

(Dollars in millions)	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Total revenue	$6,405	$8,547
Total cost	5,029	5,969
Gross profit	$1,376	$2,578
Gross profit margin	21.5%	30.2%

Revenue from hardware for the first quarter of 2002 decreased 25.1 percent (23 percent at constant currency) when compared with the same period in 2001.

Enterprise Systems revenue decreased as eServer revenue and storage businesses declined due to a longer customer decision process and aggressive pricing by competitors in the first quarter of 2002 versus 2001. Revenue from zSeries mainframes declined as a result of deferred purchase decisions. Total deliveries of zSeries computing power as measured in MIPS (millions of instructions per second) decreased 4 percent in the first quarter of 2002 compared to the first quarter of 2001. Revenue from the pSeries UNIX servers declined due to lower volumes and significant price pressures and iSeries servers declined as customers deferred buying decisions pending the introduction of the Power4 architecture. The xSeries revenue declined driven by steep price erosion the company has been experiencing over the past year. In storage, both total disk storage and tape storage revenue declined as a result of increasing price pressure and a longer customer decision process, resulting in some deferrals at the end of the quarter.

Personal and Printing Systems revenue decreased as a result of lower revenue from personal computers, retail store solutions and printing systems products. The personal computer revenue decline continues to reflect demand weakness and price erosion across all product lines. The percentage of business through the direct channel did not meet the company's expectation for the first quarter of 2002. The company continues to execute on its strategies for its personal computer business as the company's inventory was down, channel inventory was reduced and expense declined versus the first quarter of 2001. The company also continues to bring new functionality to its desktop personal computers and ThinkPads, such as the latest wireless and security offerings.

Technology revenue declined substantially in the first quarter of 2002 versus the comparable period of 2001. The decline in Technology revenue was driven by the semiconductor industry's severe downturn. In addition, HDD (hard disk drive) revenue decreased year-over-year reflecting the continued pricing and demand pressures in the components market. See note 8 on page 10 of this Form 10-Q for additional information regarding the company's HDD business. The company also continues to evaluate various alternatives to mitigate the impact of the semiconductor industry's downturn on the results of the company. These alternatives include among other actions, rebalancing sources of supply and reexamining manufacturing efficiencies.

Hardware gross profit dollars for the first quarter of 2002 decreased 46.6 percent and the gross profit margin decreased 8.7 points, from the comparable period in 2001. These decreases were primarily driven by significantly lower gross profit margins associated with microelectronic products, due to the continued weakness in demand for the company's OEM products. However, for end-user hardware, gross profit margins for most individual products were fairly stable as price reductions were offset with cost reductions.

SOFTWARE

(Dollars in millions)	Three Months Ended March 31, 2002	2001
Total revenue	$2,897	$2,918
Total cost	549	579
Gross profit	$2,348	$2,339
Gross profit margin	81.1%	80.2%

Revenue from software for the first quarter of 2002 declined 0.7 percent (up 3 percent at constant currency) versus the first quarter of 2001. The company's middleware products (which comprise data management, transaction processing, Tivoli systems management, and Lotus Notes messaging and collaboration across both IBM and non-IBM platforms) had revenue growth of 2 percent (6 percent at constant currency) over the first three months of 2001. The Informix acquisition contributed to all of the middleware revenue growth at constant currency. Additional middleware revenue growth was driven by strong growth in WebSpere, continued growth in DB2 database products, growth in Tivoli security and systems management offerings and the impact of currency. DB2, the company's leading database management software, grew revenue in double digits at constant currency. This additional revenue growth was partially offset by a decline in Lotus software products. Operating-systems software revenue declined 10 percent (7 percent at constant currency) in the first quarter of 2002 when compared with the year-ago period. The decline in the first quarter revenue was primarily driven by lower revenue from pSeries and iSeries software products.

Software gross profit dollars were essentially flat and the gross profit margin improved 0.9 points versus the first quarter of 2001. The improvement in the gross profit percentage was primarily driven by lower external royalty payments and lower service costs in 2002 versus 2001.

GLOBAL FINANCING

(Dollars in millions)	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Total revenue	$783	$832
Total cost	340	438
Gross profit	$443	$394
Gross profit margin	56.6%	47.3%

RESULTS OF OPERATIONS - (CONTINUED)

First quarter 2002 Global Financing revenue decreased 5.9 percent (3 percent at constant currency) compared with the same period of 2001. The decline was primarily driven by lower commercial financing activity in 2002 versus 2001.

Global Financing gross profit dollars increased 12.6 percent for the first quarter of 2002 versus the same period in 2001. The gross profit margin increased 9.3 points in 2002 as compared to 2001. These increases were primarily driven by lower borrowing costs related to the current interest rate environment, partially offset by a decline in the used equipment sales gross profit margin.

ENTERPRISE INVESTMENTS / OTHER

(Dollars in millions)	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Total revenue	$237	$276
Total cost	104	139
Gross profit	$133	$137
Gross profit margin	56.2%	49.5%

Revenue from Enterprise Investments/Other decreased 14.3 percent (10 percent at constant currency) in the first three months of 2002 versus the comparable period in 2001. The decrease was primarily driven by lower hardware revenue associated with document processors versus last year.

The Enterprise Investments/Other gross profit dollars decreased 2.7 percent and the gross profit margin increased 6.7 points in the first quarter of 2002, versus the same periods of 2001, primarily as a result of the mix of revenue shifting to higher margin products such as CATIA.

EXPENSE AND OTHER INCOME

The company reclassified the impact of intellectual property income, gains and losses on sales and other than temporary declines in market value of certain investments, realized gains and losses on certain real estate activity and foreign currency transaction gains and losses from the SG&A caption on the Consolidated Statement of Earnings. Custom development income was also reclassified from the Research, development and engineering caption on the Consolidated Statement of Earnings. Intellectual property and custom development income are now recorded in a separate caption in the Consolidated Statement of Earnings. The other items listed above are now recorded as part of Other (income) and expense. Prior periods were reclassified to conform with the current year presentation.

RESULTS OF OPERATIONS - (CONTINUED)

(Dollars in millions)	Three Months Ended March 31, 2002	2001
Selling, general and administrative	$ 4,053	$ 4,119
Percentage of revenue	21.8%	19.6%
Research, development and engineering	$ 1,200	$ 1,281
Percentage of revenue	6.5%	6.1%
Intellectual property and custom development (income)	$ (333)	$ (277)
Other (income) and expense	$ (205)	$ (76)
Interest expense	$ 30	$ 72
Total expense and other income	$ 4,745	$ 5,119

Selling, general and administrative (SG&A) expense decreased 1.6 percent (up 1 percent at constant currency) in the first three months of 2002 compared with the same period in 2001. The company continues to make progress in its operating expense management driven by its continued focus on productivity. SG&A expense decreased in 2002 as a result of lower discretionary spending on items such as travel and consulting services. Contributing to the overall decrease was the benefit from the elimination of goodwill amortization of $76 million (pre-tax) and a favorable impact from currency translation. This overall decrease (comprised of lower discretionary spending, the elimination of goodwill amortization and currency translation) was partially offset by a first-quarter 2002 increase of $61 million in charges taken for bad debt expense to a total of $154 million and a first-quarter 2002 increase of $108 million in charges taken for workforce reductions to a total of $138 million. The company continues to evaluate its headcount and skills needs, and may continue to take related actions from time to time.

As described in note 4 on pages 7 through 9, of this Form 10-Q, the company adopted new accounting rules that eliminate the amortization of goodwill on January 1, 2002. The new rules also provide for no goodwill amortization on any acquisitions that occurred after June 30, 2001. The amount of goodwill amortization, net of tax, that would have been recorded in the first quarter of 2002 if the new rules were not adopted on January 1, 2002, (excluding the Informix acquisition that occurred after June 30, 2001, and any other post 2001 acquisitions) was $65 million. The amount of goodwill amortization recorded in the first quarter of 2001 was $75 million, net of tax.

Research, development and engineering (RD&E) expense decreased 6.3 percent for the first three months of 2002 compared with the same period of 2001. The decline in RD&E expense was driven by the focus on discretionary spending and savings associated with the integration of Lotus and Tivoli into the company's Software business.

Intellectual property and custom development income increased 20.0 percent for the first three months of 2002 versus the first quarter of 2001.

RESULTS OF OPERATIONS - (CONTINUED)

(Dollars in millions)	Three Months Ended March 31, 2002	2001
Sales and other transfers of intellectual property	$170	$ 60
Licensing/royalty-based fees	95	139
Custom development income	68	78
Total	$333	$277

Sales and other transfers of intellectual property can vary period to period. These transactions often require an extended period of negotiations and contract/license drafting and administration prior to finalization and recognition in the financial statements. The increase in first quarter 2002 versus first quarter 2001 was primarily due to the transfer of technology know how for building a complementary metal oxide semiconductor (CMOS) device in a silicon-on- insulator (SOI) substrate to Sony and Toshiba. The amount of income from licensing/royalty-based fee transactions has been declining and this trend may continue.

Other (income) and expense improved 171 percent in the first quarter of

2002 versus the first quarter of 2001. The improvement was primarily the result of lower write-downs of certain equity investments for other-than-temporary market declines of $88 million and a $91 million gain in the first quarter of 2002 associated with the sale of the U.S. and European desktop personal computer manufacturing to Sanmina SCI. These items were partially offset by lower interest income of $20 million in the first quarter of 2002 versus 2001.

Interest expense excluding interest classified as Cost of Financing in the Consolidated Statement of Earnings declined 57.9 percent in the first quarter of 2002 compared with the first quarter of 2001. The decline was a result of reduced levels of debt and lower interest rates.

Interest on total borrowings of the company and its subsidiaries, which includes interest expense and Global Financing interest classified as Cost of Financing in the Consolidated Statement of Earnings was $217 million for the first quarter of 2002, of which the company capitalized $9 million.

RESULTS OF OPERATIONS - (CONTINUED)

The following table provides the total pre-tax (income)/cost for retirement-related plans at March 31, 2002 and 2001. (Income)/cost amounts are included as a reduction from/addition to, respectively, the company's cost and expense amounts on the Consolidated Statement of Earnings.

Retirement-Related Benefits

(dollars in millions)	March 31, 2002	March 31, 2001
Total retirement-related plans-- (income)/cost	$ (25)	$ (84)
Comprise:		
Defined benefit and contribution pension plans	(113)	(187)
Nonpension postretirement retirement benefits	88	103

Included in the amounts above, the company realized income of approximately $266 million due to the funded status of its defined benefits pension plans for the quarter ended March 31, 2002. The comparable amount for the first quarter of 2001 was approximately $339 million. The decline in the income was primarily a result of the change in the expected long-term rate of return on plan assets from 10 percent to 9.5 percent for the U.S. plan and similar changes made for certain non-U.S. plans.

At the beginning of 2002, the company reduced its expected long-term return on the U.S. Plan assets assumption from 10.0 percent to 9.5 percent. This change and the impact of 2002 changes in the expected long-term rate of return on plan assets for certain non-U.S. Plans is expected to reduce 2002 net retirement plan income by approximately $350 million.

The company annually sets its discount rate assumption for retirement-related benefits accounting to reflect the rates available on high-quality, fixed-income debt instruments. Using this process, the company changed its discount rate assumption for the PPP from 7.25 percent to 7.00 percent, effective December 31, 2001. This change is not expected to have a material effect on the company's 2002 results of operations.

Future effects of retirement-related plans on the operating results of the company depend on economic conditions, employee demographics, mortality rates and investment performance.

PROVISION FOR INCOME TAXES

The effective tax rate for the first three months of 2002 was 29.5 percent versus 29.7 percent in the first quarter of 2001. The company's effective tax rate will change period to period based on nonrecurring events as well as recurring factors including the geographical mix of income before taxes, the timing and amount of foreign dividends, state and local taxes, and the interaction of various global tax strategies. In the normal course of business, the company expects that its effective tax rate will approximate 30 percent.

FINANCIAL CONDITION

During the first quarter of 2002, the company's financial performance enabled it to make significant investments to fund its future growth and increase shareholder value. These investments included expenditures of $1,339 million for Research, development and engineering, $1,373 million for Plant, rental machines and other property and $1,782 million for the repurchase of the company's common shares. The company had $3,967 million in Cash and cash equivalents and Marketable securities at March 31, 2002.

CASH FLOW

(Dollars in millions)	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
Net cash provided from/(used in):		
Operating activities	$ 2,655	$ 1,935
Investing activities	(1,457)	(1,382)
Financing activities	(3,678)	(270)
Effect of exchange rate changes on cash and cash equivalents	(17)	(53)
Net change in cash and cash equivalents	$(2,497)	$ 230

Cash flows from operating activities in the first three months of 2002 increased $720 million from the comparable 2001 period. This primarily resulted from working capital improvements.

Cash flows used in investing activities increased by $75 million from the comparable 2001 period. The increase primarily resulted from the acquisition of

CrossWorlds. Proceeds from marketable securities and other investments declined from the 2001 period.

Cash flows used in financing activities in the first three months of 2002 increased $3,408 million from the comparable 2001 period due primarily to a decrease in debt financing and an increase in stock repurchases.

WORKING CAPITAL

(Dollars in millions)	At March 31, 2002	At December 31, 2001
Current assets	$37,385	$42,461
Current liabilities	30,084	35,119
Working capital	$ 7,301	$ 7,342
Current ratio	1.24:1	1.21:1

Current assets decreased $5,076 million from year-end 2001 primarily due to decreases of $2,900 million in Accounts receivable ($2,101 million in Short-term financing receivables,

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FINANCIAL CONDITION - (CONTINUED)

$776 million in Notes and accounts receivable and $23 in Other accounts receivable), $2,426 million in Cash and cash equivalents and Marketable securities and $70 million in deferred taxes, partially offset by increases of $245 million in Prepaid expenses and other current assets and $103 million in Inventories. The decline in accounts receivable was attributable to the lower first quarter revenue volumes and collection of typically higher yearend accounts receivable balances. The net decrease in Cash and cash equivalents and Marketable securities was primarily due to a decrease in cash flow from Investing and Financing activities partially offset by an increase in cash flow from Operating activities compared to year-end 2001.

Current liabilities decreased $5,035 million from year-end 2001 with declines of $2,945 million in short-term debt, $1,681 million in Accounts payable and other accruals, and $409 million in Taxes payable (resulting primarily from declines in these balances from typically higher year-end levels).

INVESTMENTS

During the first quarter of 2002, the company invested $1,373 million in Plant, rental machines and other property, a decrease of $60 million from the comparable 2001 period. The company invested in its services business, primarily in the management of customers' information technology, as well as in manufacturing capacity for the 300 mm copper chip-making facilities in microelectronics.

In addition to software development expense included in RD&E expense, during the first three months of 2002, the company invested in software costs of $140 million that were capitalized on the Consolidated Statement of Financial

Position, an increase of $6 million from the comparable period in 2001. Amortization of capitalized software costs was $175 million during the first quarter of 2002, an increase of $26 million from the comparable 2001 period.

Investments and sundry assets were $15,511 million at March 31, 2002, an increase of $43 million from year-end 2001, primarily due to higher pre-paid pension assets.

The company has remaining authorization as of March 31, 2002, to purchase $2,794 million of IBM common shares in the open market. On April 30, 2002, the Board of Directors authorized the company to repurchase up to an additional $3.5 billion of IBM common shares. The company plans to repurchase the shares in the open market from time to time, based on market conditions.

DEBT AND EQUITY

The company's debt level of $24,908 million is almost entirely (98 percent) the result of the company's Global Financing business. The Global Financing business provides financing primarily to the company's customers and business partners. Using the typical financing business model, Global Financing funds its operations primarily through borrowings. It uses a debt to equity ratio of approximately 7 to 1. Global Financing generates income by charging its customers a higher interest rate than the interest expense on Global Financing borrowings.

FINANCIAL CONDITION - (CONTINUED)

Global Financing Assets and Debt

(dollars in billions)

	GLOBAL FINANCING	
	ASSETS	DEBT
1993	30,448	21,131
1994	28,670	19,164
1995	28,846	19,722
1996	31,793	20,627
1997	35,444	23,824
1998	40,199	27,754
1999	39,686	26,799
2000	40,822	27,514
2001	36,670	25,545
2002	33,723	24,377

The company's operations are essentially self-funding except for the company's Global Financing business which leverages assets.

The company's funding requirements are continually monitored and strategies are executed to manage the company's overall asset and liability profile. Additionally, the company maintains sufficient flexibility to access global funding sources as needed. The company's total debt decreased $2,243 million to $24,908 million. Based upon the company's two different capital structures as previously discussed in this section, the analysis of this change and certain ratios are discussed below on both a Global Financing and a non-global financing basis.

GLOBAL FINANCING

(Dollars in millions)	At March 31, 2002	At December 31, 2001
Assets*	$33,723	$36,670
Debt **	24,377	25,545
Equity	3,715	3,756
Debt/Equity	6.6x	6.8x

* Global Financing assets include cash, financing receivables, intercompany amounts, rental machine fixed assets and other assets.
** Global Financing debt includes debt of the company and of Global Financing units that support the Global Financing business.

FINANCIAL CONDITION - (CONTINUED)

The Global Financing segment is a financial services business and is, therefore, more debt dependent than the company's other businesses. In the first quarter of 2002, the Global Financing debt to equity ratio decreased to 6.6x, which is within management's acceptable target range.

NON-GLOBAL FINANCING

(Dollars in millions)	At March 31, 2002	At December 31, 2001
Debt*	$ 531	$ 1,606
Debt/Capitalization	2.7%	7.5%

* Non-global financing debt is the company's total external debt less the Global Financing debt described in the Global Financing table above.

The decrease in non-global financing debt in the first quarter of 2002 was due to stronger cash flows and decreased requirements for cash in the first quarter period.

Global Financing provides financing predominately for the company's external customers but also provides financing for the company including the funding to support the Global Services business' long-term customer services contracts. All of these financing arrangements are at arms-length rates based upon market conditions. The company manages and measures the Global Financing business as if it approximates a stand-alone business that includes both the external financing and company financing described above. Accordingly, the Global Financing debt above and Global Financing Cost of financing below support both of these Global Financing activities.

All intercompany transactions are eliminated in the Consolidated Statement of Earnings and therefore, the financing revenue associated with the financing provided by Global Financing to the company is eliminated in consolidation. Accordingly, the interest expense from the company's external borrowings that supports such financing revenue is classified in the Interest expense caption of the Consolidated Statement of Earnings as opposed to the Cost of financing caption. The reconciliation of these amounts is as follows:

(Dollars in millions)	Global Financing	Non-Global Financing	Eliminations	Consoli Resu
Cost of financing	$ 208	--	$ (30)	$ 1
Interest expense	--	$ 0	30	

Stockholders' equity decreased $563 million from December 31, 2001, primarily due to the company's ongoing stock repurchase program partially offset by an increase in the company's retained earnings. A review of the company's debt and equity should also consider other contractual obligations and commitments. These amounts are summarized in one table below to facilitate a reader's review.

FINANCIAL CONDITION - (CONTINUED)

CONTRACTUAL OBLIGATIONS

(Dollars in millions)	Balance as of 3/31/02	Payments Due In 2002	2003-04	2005-06
Long-term debt	$ 20,203	$ 3,824	$ 5,041	$ 4,620
Lease commitments	5,319	988	1,889	1,028

COMMITMENTS

(Dollars in millions)	Balance as of 3/31/02	Amounts Expiring In 2002	2003-04	2005-06
Unused lines of credit	$ 3,762	$ 2,906	$ 412	$ 208
Other commitments	229	96	130	3
Financial guarantees	217	79	40	9

LIQUIDITY

The company maintains a global credit facility totaling $12.0 billion in committed credit lines, including an $8.0 billion five-year facility (which has four years remaining) and a $4.0 billion 364-day facility, as part of its ongoing efforts to ensure appropriate levels of liquidity. As of March 31, 2002, amounts unused and available under these facilities were $11,537 million. In addition, at March 31, 2002, the company had in place other lines of credit, most of which were uncommitted, of $7,294 million. The amount of unused and available under these primarily uncommitted facilities at March 31, 2002, was $5,162 million.

The major rating agencies' ratings of the company's debt securities at March 31, 2002, appear in the table below:

	Standard And Poor's	Moody's Investors Service	Fitch, Inc.
Senior long-term debt	A+	A1	AA-
Commercial paper	A-1	Prime-1	F-1+

CURRENCY RATE FLUCTUATIONS

Changes in the relative values of non-U.S. currencies to the U.S. dollar affect the company's results. At March 31, 2002, currency changes resulted in assets and liabilities denominated in local currencies being translated into fewer dollars than at year-end 2001. The currency rate changes had an unfavorable effect on revenue growth of approximately 3 and 5 percentage points in the first quarter of 2002 and 2001, respectively.

For non-U.S. subsidiaries and branches that operate in U.S. dollars or whose economic environment is highly inflationary, translation adjustments are reflected in results of operations, as required by SFAS No. 52, "Foreign Currency Translation." Generally, the company manages

currency risk in these entities by linking prices and contracts to U.S. dollars and entering into foreign currency hedge contracts.

The company uses a variety of financial hedging instruments to limit specific currency risks related to financing transactions and other foreign currency-based transactions. Further discussion of currency and hedging appears in note k, "Derivatives and Hedging Transactions," on pages 85 through 87 of the 2001 Annual Report.

FORWARD LOOKING AND CAUTIONARY STATEMENTS

Except for the historical information and discussions contained herein, statements contained in this Form 10-Q may constitute "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, including the company's failure to continue to develop and market new and innovative products and services and to keep pace with technological change; competitive pressures; failure to obtain or protect intellectual property rights; quarterly fluctuations in revenues and volatility of stock prices; the company's ability to attract and retain key personnel; currency fluctuations and customer financing risks; dependence on certain suppliers; changes in the financial or business condition of the company's distributors or resellers; the company's ability to successfully manage acquisitions and alliances; legal, political and economic changes and other risks, uncertainties and factors discussed elsewhere in this Form 10-Q, in the company's other filings with the Securities and Exchange Commission or in materials incorporated therein by reference.

PART II - OTHER INFORMATION

ITEM 6 (a). EXHIBITS

EXHIBIT NUMBER	
3	The By-laws of IBM as amended through April 30, 2002.
10	Third Amendment to Employment Agreement for L.V. Gerstner, Jr. dated as of January 29, 2002.
11	Statement re: computation of per share earnings.
12	Statement re: computation of ratios.

ITEM 6 (b). REPORTS ON FORM 8-K

The company filed Form 8-K on January 17, 2002, with respect to the company's financial results for the periods ended December 31, 2001, and included the unaudited Consolidated Statement of Earnings, Consolidated Statement of Financial Position and Segment Data for the periods ended December 31, 2001. In addition, IBM's Chief Financial Officer, John R. Joyce's fourth-quarter earnings presentation to security analysts on Thursday, January 17, 2002 was filed as Attachment II of the Form 8-K.

The company filed Form 8-K on January 29, 2002, announcing that Samuel J. Palmisano had been elected CEO of IBM effective March 1, 2002 and that Louis V. Gerstner, Jr. will remain IBM chairman through the end of 2002.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

International Business Machines Corporation
(Registrant)

Date: May 15, 2002

By: /s/ Robert F. Woods

Robert F. Woods
Vice President and Controller