

## HOMEWORK PROBLEM 4

The July 28, 1993 issue of *The Wall Street Journal* reported the following:

### IBM Posts \$8.04 Billion 2nd-Period Loss, Halves Dividend, Plans 35,000 Job Cuts

NEW YORK- Seeking to inflict all the pain of his turnaround plan in a single massive stroke, International Business Machines Corp. Chairman Louis V. Gerstner Jr. announced an \$8.9 billion pretax charge and a program to shed 35,000 more workers and shutter buildings around the world.

IBM also slashed its dividend in half, its second cut this year, and posted a second-quarter net loss of \$8.04 billion, or \$14.10 a share. The \$8 billion quarterly loss, its worst ever, occurred primarily to pay for early retirements. The results included an operating loss of \$40 million, or eight cents a share. The \$40 million loss from operations was less than expected and reflected the continuing free fall in mainframe-computer sales and a small profit from personal computers.

At a news conference here, Mr. Gerstner said he believes the latest cuts are finally the last IBM will end, after seven years of hacking away at it employees and overhead. "We have got to get behind us this Chinese water torture we've been going through quarter after quarter," he said.

Mr. Gerstner's moves continue one of the greatest bloodlettings in business history. Once the most invincible power in the world's fastest-growing industry, IBM's empire crumbled at a breathtaking rate as it yielded the personal computer revolution to nimbler rivals.

Vainly struggling to stanch its decline, IBM has now taken a staggering \$28 billion in charges and sliced its work force nearly in half since 1985 -- moving to ax 180,000 jobs in all.

IBM's stock, after plunging to 18-year lows last week, rose \$3.25, or 7.7% on yesterday's news to close at \$45.625 in New York Stock Exchange composite trading.

An excerpt from an internet news article appearing November 7, 2011 is shown below:

### U.S. Stocks Extend Losses

Monday, November 7, 2011  
Vincent Mao - Investors.com

**Broadsoft (BSFT)** was off its session low, but still down in big volume. Earlier Monday, the telecom software maker trounced views as its Q3 earnings surged 375% to 38 cents a share. Analysts had expected just 22 cents. Sales climbed 60% to \$35.7 million. It also guided Q4 profit and revenue mostly in line with views.

Required:

Assume that you are a stockbroker for Akers & Akers. These articles confuse a client of yours (an investor). Your client believes that the stock price should move in the same direction as your profits -- if profits go up, your stock price goes up, etc. The investor has called you asking for an explanation of the changes in stock price reported above. How would you respond?