

INTERNATIONAL BUSINESS MACHINES CORP
Form 8-K
January 17, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report: January 17, 2008

(Date of earliest event reported)

INTERNATIONAL BUSINESS MACHINES CORPORATION

(Exact name of registrant as specified in its charter)

New York
(State of Incorporation)

1-2360
(Commission File Number)

13-0871985
(IRS employer Identification No.)

ARMONK, NEW YORK
(Address of principal executive offices)

10504
(Zip Code)

914-499-1900

(Registrant's telephone number)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

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- o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

 - o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

 - o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

 - o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operations and Financial Condition.

The registrant's press release dated January 17, 2008, regarding its financial results for the periods ended December 31, 2007, including consolidated financial statements for the periods ended December 31, 2007, is Attachment I of this Form 8-K. Attachment II are the slides for IBM's Chief Financial Officer Mark Loughridge's fourth quarter earnings presentation on January 17, 2008, as well as certain reconciliation and other information (Non-GAAP Supplementary Materials) for information in Attachment I (press release), Attachment II (slides) and in Mr. Loughridge's presentation. All of the information in Attachments I and II is hereby filed except for the following, which is furnished but not filed:

Press Release

The following statement on Page 1: Revenues were flat excluding the year-to-year impact of the Printing Systems Division divestiture in June 2007.

Slides

On Slide 3 (4Q 2007 Summary), the following information: Revenue flat*

On Slide 10 (Revenue by Segment), the data in the row identified as without Printers .

On Slide 14 (Systems & Technology Segment):

the data in the row identified as without Printers for the two columns under B/(W) Yr/Yr

the data in the row identified as Total Systems & Technology w/o Printers

On Slide 24 (Supplemental Segment Information - 4Q 2007), the data in the row identified as Total Systems & Technology without Printers

IBM's web site (www.ibm.com) contains a significant amount of information about IBM, including financial and other information for investors (www.ibm.com/investor/). IBM encourages investors to visit its various web sites from time to time, as information is updated and new information is posted.

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, hereunto duly authorized.

Date: January 17, 2008

By: /s/ Timothy S. Shaughnessy

Timothy S. Shaughnessy
Vice President and Controller

IBM REPORTS 2007 FOURTH-QUARTER AND FULL-YEAR RESULTS

- Diluted earnings of \$2.80 per share, up 24 percent as reported;
- Total revenues of \$28.9 billion, up 10 percent;
- Global Technology Services revenues up 16 percent; pre-tax income up 26 percent;
- Global Business Services revenues up 17 percent; pre-tax income up 9 percent;
- Services signings of \$15.4 billion; short-term signings up 8 percent;
- Software revenues up 12 percent; pre-tax income up 21 percent;
- 65 percent of revenues from outside the U.S.; E/ME/A revenues up 16 percent; Asia Pacific up 15 percent.

ARMONK, N.Y., January 17, 2008 . . . IBM (NYSE: IBM) today announced fourth-quarter 2007 diluted earnings of \$2.80 per share from continuing operations compared with diluted earnings of \$2.26 per share in the fourth quarter of 2006, an increase of 24 percent as reported. Fourth-quarter income from continuing operations was \$4.0 billion compared with \$3.5 billion in the fourth quarter of 2006, an increase of 14 percent. Total revenues for the fourth quarter of 2007 of \$28.9 billion increased 10 percent (4 percent, adjusting for currency) from the fourth quarter of 2006.

IBM had a terrific fourth quarter and full year with record revenue, profit and cash. The broad scope of our global business led by strong operational performance in Asia, Europe and emerging countries as well as continued growth in services and software drove these outstanding results, said Samuel J. Palmisano, IBM chairman, president and chief executive officer. As we begin 2008, IBM is well-positioned as a result of our global business reach, solid recurring revenue and profit streams, and strong financial position. We are on track to achieve our long-term earnings-per-share roadmap objective in 2010.

From a geographic perspective, the Americas fourth-quarter revenues were \$11.7 billion, an increase of 5 percent as reported (2 percent, adjusting for currency) from the 2006 period. Revenues from Europe/Middle East/Africa were \$10.8 billion, up 16 percent (6 percent, adjusting for currency). Asia-Pacific revenues increased 15 percent (9 percent, adjusting for currency) to \$5.5 billion. OEM revenues were \$894 million, down 13 percent compared with the 2006 fourth quarter.

Total Global Services revenues grew 17 percent (10 percent, adjusting for currency) and pre-tax income increased 19 percent. Global Technology Services segment revenues increased 16 percent (10 percent, adjusting for currency) to \$10.0 billion, with strong performance in all geographic regions and business sectors. Global Business Services segment revenues, marked by significant growth in core consulting and application management services, increased 17 percent (10 percent, adjusting for currency) to \$4.9 billion. IBM signed services contracts totaling \$15.4 billion, down 13 percent year over year versus a strong fourth-quarter 2006; short-term signings increased 8 percent. The full-year estimated services backlog, including Strategic Outsourcing, Business Transformation Outsourcing, Integrated Technology Services, Global Business Services and Maintenance, was \$118 billion, an increase of \$2 billion from the prior-year period.

Revenues from the Systems and Technology segment totaled \$6.8 billion for the quarter, down 4 percent (8 percent, adjusting for currency). Revenues were flat excluding the year-to-year impact of the Printing Systems Division divestiture in June 2007. Pre-tax income increased 18 percent. Systems and Technology revenues from the System p UNIX server products increased 9 percent compared with the 2006 period and revenues from System x servers increased 6 percent. Revenues from System z server products decreased 15 percent versus the year-ago period.

Total delivery of System z computing power, which is measured in MIPS (millions of instructions per second), decreased 4 percent. Revenues from System i servers increased 2 percent. Revenues from System Storage increased 11 percent and revenues from Microelectronics decreased 15 percent.

Revenues from the Software segment were \$6.3 billion, an increase of 12 percent (6 percent, adjusting for currency) compared with the fourth quarter of 2006; pre-tax income increased 21 percent. Revenues from IBM's middleware products, which primarily include WebSphere, Information Management, Tivoli, Lotus and Rational products, were \$5.0 billion, up 13 percent versus the fourth quarter of 2006. Operating systems revenues of \$664 million increased 3 percent compared with the prior-year quarter.

For the WebSphere family of software products, which facilitate customers' ability to manage a wide variety of business processes using open standards to interconnect applications, data and operating systems, revenues increased 23 percent. Revenues from Information Management software, which enables clients to leverage information on demand, increased 11 percent. Revenues from Tivoli software, infrastructure software that enables clients to centrally manage networks including security and storage capability, increased 19 percent, and revenues from Lotus software, which allows collaborating and messaging by clients in real-time communication and knowledge management, increased 7 percent year over year. Revenues from Rational software, integrated tools to improve the processes of software development, increased 22 percent compared with the year-ago quarter.

Global Financing segment revenues increased 8 percent (2 percent, adjusting for currency) in the fourth quarter to \$668 million.

The company's total gross profit margin was 44.9 percent in the 2007 fourth quarter compared with 44.6 percent in the 2006 period.

Total expense and other income increased 9 percent to \$7.5 billion compared to \$6.9 billion in the prior-year period. Total SG&A expense increased 7 percent to \$6.0 billion. RD&E expense was \$1.6 billion, flat compared with the year-ago period. Intellectual property and custom development income decreased to \$236 million compared with \$241 million a year ago. Other (income) and expense contributed income of \$98 million in the fourth quarter of 2007 versus income of \$150 million in the fourth quarter of 2006. Interest expense increased to \$214 million compared with \$71 million in the prior-year period, primarily due to the increase in debt to finance the company's accelerated share repurchase agreements executed in the second quarter.

IBM's effective tax rate in the fourth-quarter 2007 was 28.0 percent, flat compared with the fourth quarter of 2006.

The weighted-average number of diluted common shares outstanding in the fourth-quarter 2007 was 1.41 billion compared with 1.53 billion shares in the same period of 2006.

Full-Year 2007 Results

- Diluted earnings of \$7.18 per share, up 18 percent as reported;
- Total revenues of \$98.8 billion, up 8 percent;
- Global Technology Services revenues up 12 percent; pre-tax income up 8 percent;
- Global Business Services revenues up 13 percent; pre-tax income up 21 percent;
- Software revenues up 10 percent; pre-tax income up 9 percent.

Income from continuing operations for the year ended December 31, 2007 was \$10.4 billion compared with \$9.4 billion in the year-ago period, an increase of 11 percent. Diluted earnings per share from continuing operations were \$7.18, including a gain from the sale of the Printing Systems Division in the second quarter, an increase of 18 percent, compared with \$6.06 per diluted share in

2006. Revenues from continuing operations for 2007 totaled \$98.8 billion, an increase of 8 percent (4 percent, adjusting for currency), compared with \$91.4 billion in 2006.

From a geographic perspective, the America's full-year revenues were \$41.1 billion, an increase of 4 percent as reported (3 percent, adjusting for currency) from the 2006 period. Revenues from Europe/Middle East/Africa were \$34.7 billion, an increase of 14 percent (5 percent, adjusting for currency). Asia-Pacific revenues increased 11 percent (8 percent, adjusting for currency) to \$19.5 billion. OEM revenues were \$3.5 billion, down 10 percent compared with 2006.

Revenues from the Global Technology Services segment totaled \$36.1 billion, an increase of 12 percent (7 percent, adjusting for currency) compared with 2006. Revenues from the Global Business Services segment were \$18.0 billion, up 13 percent (9 percent, adjusting for currency). Systems and Technology segment revenues were \$21.3 billion, a decrease of 3 percent (6 percent, adjusting for currency). Software segment revenues in 2007 totaled \$20.0 billion, an increase of 10 percent (6 percent, adjusting for currency). Global Financing segment revenues totaled \$2.5 billion, an increase of 6 percent (2 percent, adjusting for currency).

For total operations, net income for 2007 was \$10.4 billion, or \$7.18 per diluted share, compared with the 2006 net income of \$9.5 billion, or \$6.11 per diluted share, which included a gain from discontinued operations related to country tax settlements of \$76 million.

IBM ended 2007 with \$16.1 billion of cash on hand and free cash flow of \$12.4 billion, up 1.9 billion year over year. The balance sheet remains strong, and the company is well positioned to take advantage of opportunities.

Share repurchases totaled approximately \$18.8 billion in 2007, including \$12.5 billion executed through accelerated share repurchase agreements in May. The repurchases are part of the \$15 billion authorization for the company's stock repurchase program approved by the IBM board of directors on April 24.

The weighted-average number of diluted common shares outstanding in 2007 was 1.45 billion compared with 1.55 billion shares in 2006. As of December 31, 2007, there were 1.39 billion basic common shares outstanding.

Debt, including Global Financing, totaled \$35.3 billion, compared with \$22.7 billion at year-end 2006. From a management segment view, Global Financing debt increased \$2.2 billion from year-end 2006 to a total of \$24.5 billion, resulting in a debt-to-equity ratio of 7.1 to 1. The non-global financing debt-to-capitalization ratio was 30.0 percent at the end of 2007, which reflects increased financial leverage associated with the accelerated share repurchase agreements.

Forward-Looking and Cautionary Statements

Except for the historical information and discussions contained herein, statements contained in this release 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; fluctuations in revenues and purchases, and volatility of stock prices; the company's ability to attract and retain key personnel; adverse affects from tax matters; environmental matters; currency fluctuations and customer financing risks; customer credit risk on trade receivables; risks from investing in growth opportunities; the company's failure to maintain the adequacy of its internal controls; the company's use of certain estimates and assumptions; 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; failure to have sufficient insurance; legal, political, health and economic conditions; risk factors related to IBM securities; and other risks, uncertainties and factors discussed in the company's Form 10-Q, Form 10-K and in the company's other filings with the U.S. Securities and Exchange Commission (SEC) or in materials incorporated therein by reference. The company assumes no obligation to update or revise any forward-looking statements.

Presentation of Information in this Press Release

In an effort to provide investors with additional information regarding the company's results as determined by generally accepted accounting principles (GAAP), the company has also disclosed in this press release the following non-GAAP information which management believes provides useful information to investors:

IBM Results

- adjusting for revenues relating to the sale of the Printing System Division;
- adjusting for free cash flow;
- adjusting for currency (i.e., at constant currency).

The rationale for management's use of non-GAAP measures is included as part of the supplementary materials presented within the fourth-quarter earnings materials. These materials are available on the IBM investor relations Web site at www.ibm.com/investor and are being included in Attachment II (Non-GAAP Supplementary Materials) to the Form 8-K that includes this press release and is being submitted today to the SEC.

Conference Call and Webcast

IBM's regular quarterly earnings conference call is scheduled to begin at 4:30 p.m. EST, today. Investors may participate by viewing the Webcast at www.ibm.com/investor/4q07. Presentation charts will be available on the Web site prior to the Webcast.

Financial Results Below (certain amounts may not add due to use of rounded numbers; percentages presented are calculated from the underlying whole-dollar amounts).

INTERNATIONAL BUSINESS MACHINES CORPORATION

COMPARATIVE FINANCIAL RESULTS

(Dollars in millions except per share amounts)

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2007	2006	Percent Change	2007	2006	Percent Change
REVENUE						
Global Technology Services	\$ 9,997	\$ 8,590	16.4%	\$ 36,103	\$ 32,322	11.7%
Gross margin	30.1%	29.9%		29.9%	29.8%	
Global Business Services	4,933	4,223	16.8%	18,041	15,969	13.0%
Gross margin	23.1%	24.7%		23.5%	23.1%	
Systems and Technology	6,796	7,070	-3.9%	21,317	21,970	-3.0%
Gross margin	45.7%	41.8%		39.7%	37.7%	
Software	6,259	5,607	11.6%	19,982	18,161	10.0%
Gross margin	87.1%	86.5%		85.2%	85.2%	
Global Financing	668	620	7.7%	2,502	2,365	5.8%
Gross margin	45.5%	48.6%		46.7%	50.3%	
Other	212	147	44.8%	842	637	32.1%
Gross margin	-15.8%	-6.9%		4.4%	5.7%	
TOTAL REVENUE	28,866	26,257	9.9%	98,786	91,424	8.1%
GROSS PROFIT	12,970	11,701	10.8%	41,729	38,295	9.0%
Gross margin	44.9%	44.6%		42.2%	41.9%	
EXPENSE AND OTHER INCOME						
S,G&A	6,016	5,620	7.0%	22,060	20,259	8.9%
% of revenue	20.8%	21.4%		22.3%	22.2%	
R,D&E	1,586	1,587	-0.1%	6,153	6,107	0.8%
% of revenue	5.5%	6.0%		6.2%	6.7%	
Intellectual property and custom development income	(236)	(241)	-1.7%	(958)	(900)	6.4%
Other (income) and expense	(98)	(150)	-34.5%	(626)	(766)	-18.3%
Interest expense	214	71	203.6%	611	278	119.6%
TOTAL EXPENSE AND OTHER INCOME	7,481	6,887	8.6%	27,240	24,978	9.1%
% of revenue	25.9%	26.2%		27.6%	27.3%	

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INCOME FROM CONTINUING OPERATIONS						
BEFORE INCOME TAXES	5,489	4,814	14.0%	14,489	13,317	8.8%
Pre-tax margin	19.0%	18.3%		14.7%	14.6%	
Provision for income taxes	1,537	1,350	13.9%	4,071	3,901	4.4%
Effective tax rate	28.0%	28.0%		28.1%	29.3%	
INCOME FROM CONTINUING OPERATIONS	3,951	3,464	14.1%	10,418	9,416	10.6%
Net margin	13.7%	13.2%		10.5%	10.3%	
DISCONTINUED OPERATIONS						
Income/(loss) from discontinued operations	1	76		(0)	76	
NET INCOME	\$ 3,952	\$ 3,541	11.6%	\$ 10,418	\$ 9,492	9.7%
EARNINGS/(LOSS) PER SHARE OF COMMON STOCK:						
ASSUMING DILUTION						
CONTINUING OPERATIONS	\$ 2.80	\$ 2.26	23.9%	\$ 7.18	\$ 6.06	18.5%
DISCONTINUED OPERATIONS	0.00	0.05		(0.00)	0.05	
TOTAL	\$ 2.80	\$ 2.31	21.2%	\$ 7.18	\$ 6.11	17.5%
BASIC						
CONTINUING OPERATIONS	\$ 2.85	\$ 2.30	23.9%	\$ 7.32	\$ 6.15	19.0%
DISCONTINUED OPERATIONS	0.00	0.05		(0.00)	0.05	
TOTAL	\$ 2.86	\$ 2.35	21.7%	\$ 7.32	\$ 6.20	18.1%
WEIGHTED-AVERAGE NUMBER COMMON SHARES OUTSTANDING (M s)						
ASSUMING DILUTION	1,412.9	1,532.5		1,450.6	1,553.5	
BASIC	1,384.1	1,507.3		1,423.0	1,530.8	

INTERNATIONAL BUSINESS MACHINES CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Dollars in millions)	At December 31, 2007	At December 31, 2006	Percent Change
ASSETS			
Cash, cash equivalents, and marketable securities	\$ 16,146	\$ 10,657	51.5%
Receivables net, inventories, prepaid expenses	37,031	34,003	8.9%
Plant, rental machines, and other property net	15,081	14,440	4.4%
Investments and other assets	52,172	44,134	18.2%
TOTAL ASSETS	\$ 120,431	\$ 103,234	16.7%
LIABILITIES AND STOCKHOLDERS EQUITY			
Short-term debt	\$ 15,735	\$ 8,902	76.8%
Long-term debt	19,539	13,780	41.8%
Total debt	35,274	22,682	55.5%
Accounts payable, taxes, and accruals	32,076	31,189	2.8%
Other liabilities	24,612	20,857	18.0%
TOTAL LIABILITIES	91,962	74,728	23.1%
STOCKHOLDERS EQUITY	28,470	28,506	-0.1%
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 120,431	\$ 103,234	16.7%

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

FOURTH QUARTER 2007

(Dollars in millions)	External	Revenue Internal	Total	Pre-tax Income (Loss) From Continuing Operations	Pre-tax Margin
SEGMENTS					
Global Technology Services	\$ 9,997	\$ 393	\$ 10,390	\$ 1,061	10.2%
Y-T-Y Change	16.4%	-9.6%	15.1%	25.8%	
Global Business Services	4,933	287	5,220	588	11.3%
Y-T-Y Change	16.8%	-17.8%	14.2%	9.2%	
Systems and Technology	6,796	240	7,036	1,364	19.4%
Y-T-Y Change	-3.9%	-33.6%	-5.3%	17.8%	
Software	6,259	712	6,971	2,433	34.9%
Y-T-Y Change	11.6%	12.7%	11.7%	20.8%	
Global Financing	668	445	1,113	341	30.7%
Y-T-Y Change	7.7%	-8.8%	0.4%	-11.8%	
TOTAL REPORTABLE SEGMENTS	28,654	2,077	30,731	5,787	18.8%
Y-T-Y Change	9.7%	-8.3%	8.3%	17.1%	
Eliminations / Other	212	(2,077)	(1,865)	(298)	
TOTAL IBM CONSOLIDATED	\$ 28,866	\$ 0	\$ 28,866	\$ 5,489	19.0%
Y-T-Y Change	9.9%		9.9%	14.0%	

FOURTH QUARTER 2006

(Dollars in millions)	External	Revenue Internal	Total	Pre-tax Income (Loss) From Continuing Operations	Pre-tax Margin
SEGMENTS					
Global Technology Services	\$ 8,590	\$ 435	\$ 9,025	\$ 843	9.3%
Global Business Services	4,223	349	4,572	538	11.8%
Systems and Technology	7,070	362	7,432	1,158	15.6%
Software	5,607	632	6,239	2,015	32.3%
Global Financing	620	488	1,108	387	34.9%
TOTAL REPORTABLE SEGMENTS	26,111	2,266	28,377	4,940	17.4%
Eliminations / Other	147	(2,266)	(2,120)	(126)	
TOTAL IBM CONSOLIDATED	\$ 26,257	\$ 0	\$ 26,257	\$ 4,814	18.3%

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

TWELVE MONTHS 2007

(Dollars in millions)	External	Revenue Internal	Total	Pre-tax Income (Loss) From Continuing Operations	Pre-tax Margin
SEGMENTS					
Global Technology Services	\$ 36,103	\$ 1,636	\$ 37,739	\$ 3,557	9.4%
Y-T-Y Change	11.7%	-7.2%	10.7%	8.2%	
Global Business Services	18,041	1,193	19,234	2,064	10.7%
Y-T-Y Change	13.0%	-13.1%	10.9%	21.0%	
Systems and Technology	21,317	998	22,315	2,153	9.6%
Y-T-Y Change	-3.0%	-14.5%	-3.6%	23.8%	
Software	19,982	2,416	22,398	6,002	26.8%
Y-T-Y Change	10.0%	7.5%	9.7%	9.3%	
Global Financing	2,502	1,482	3,984	1,386	34.8%
Y-T-Y Change	5.8%	-3.0%	2.4%	-4.7%	
TOTAL REPORTABLE SEGMENTS	97,944	7,726	105,670	15,163	14.3%
Y-T-Y Change	7.9%	-4.4%	6.9%	10.8%	
Eliminations / Other	842	(7,726)	(6,884)	(674)	
TOTAL IBM CONSOLIDATED	\$ 98,786	\$ 0	\$ 98,786	\$ 14,489	14.7%
Y-T-Y Change	8.1%		8.1%	8.8%	

(Dollars in millions)	TWELVE MONTHS 2006				
	External	Revenue Internal	Total	Pre-tax Income (Loss) From Continuing Operations	Pre-tax Margin
SEGMENTS					
Global Technology Services	\$ 32,322	\$ 1,763	\$ 34,086	\$ 3,288	9.6%
Global Business Services	15,969	1,373	17,341	1,706	9.8%
Systems and Technology	21,970	1,168	23,138	1,739	7.5%
Software	18,161	2,249	20,409	5,493	26.9%
Global Financing	2,365	1,527	3,892	1,455	37.4%
TOTAL REPORTABLE SEGMENTS	90,787	8,080	98,867	13,682	13.8%
Eliminations / Other	637	(8,080)	(7,443)	(365)	
TOTAL IBM CONSOLIDATED	\$ 91,424	\$ 0	\$ 91,424	\$ 13,317	14.6%

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