

INTERNATIONAL BUSINESS MACHINES CORP
Form 8-K
July 18, 2012

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: **July 18, 2012**

(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)

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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:

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

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

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

 - 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 July 18, 2012, regarding its financial results for the periods ended June 30, 2012, including consolidated financial statements for the periods ended June 30, 2012, is Attachment I of this Form 8-K. Attachment II are the slides for IBM's Chief Financial Officer Mark Loughridge's second quarter earnings presentation on July 18, 2012, as well as certain reconciliation and other information (Non-GAAP Supplemental Materials) for information in Attachment I (press release), Attachment II (slides) and in Mr. Loughridge's presentation. All of the information in Attachment I and II is hereby filed.

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

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: July 18, 2012

By:

/s/ James J. Kavanaugh

James J. Kavanaugh
Vice President and Controller

IBM REPORTS 2012 SECOND-QUARTER RESULTS

- Diluted EPS:
- GAAP: \$3.34, up 11 percent;
- Operating (non-GAAP): \$3.51, up 14 percent;
- Net income:
- GAAP: \$3.9 billion, up 6 percent;
- Operating (non-GAAP): \$4.1 billion, up 8 percent;
- Gross profit margin:
- GAAP: 47.6 percent, up 1.2 points;
- Operating (non-GAAP): 48.2 percent, up 1.5 points;
- Revenue: \$25.8 billion, down 3 percent, up 1 percent adjusting for currency;
- Free cash flow of \$3.7 billion, up 9 percent;
- Software revenue, flat, up 4 percent adjusting for currency;
- Services revenue down 3 percent, up 1 percent adjusting for currency:
- Services pre-tax income up 18 percent;
- Services backlog of \$136 billion, down 6 percent, flat adjusting for currency;
- Systems and Technology revenue down 9 percent, down 7 percent adjusting for currency;
- Growth markets revenue up 2 percent, up 8 percent adjusting for currency;
- Business analytics revenue up 13 percent in the first half;
- Smarter Planet revenue up more than 20 percent in the first half;
- Cloud revenue doubled first-half 2011 revenue;
- Full-year 2012 operating (non-GAAP) EPS expectations raised to at least \$15.10 from at least \$15.00.

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ARMONK, N.Y., July 18, 2012 . . . IBM (NYSE: IBM) today announced second-quarter 2012 diluted earnings of \$3.34 per share, compared with diluted earnings of \$3.00 per share in the second quarter of 2011, an increase of 11 percent. Operating (non-GAAP) diluted earnings were \$3.51 per share, compared with operating diluted earnings of \$3.09 per share in the second quarter of 2011, an increase of 14 percent.

Second-quarter net income was \$3.9 billion compared with \$3.7 billion in the second quarter of 2011, an increase of 6 percent. Operating (non-GAAP) net income was \$4.1 billion compared with \$3.8 billion in the second quarter of 2011, an increase of 8 percent.

Total revenues for the second quarter of 2012 of \$25.8 billion were down 3 percent (up 1 percent, adjusting for currency) from the second quarter of 2011. Currency negatively impacted revenue growth by approximately \$1 billion.

In the second quarter, we delivered strong profit, earnings per share and free cash flow growth. This performance reflects continued strength in our growth initiatives and investments in higher value opportunities, said Ginni Rometty, IBM president and chief executive officer. These are fundamental elements of our long-term business model.

Looking ahead, we are well positioned to deliver greater value to a wider range of clients and to our shareholders. Given our performance in the first half and our outlook for the second half, we are raising our full-year operating earnings per share expectations to at least \$15.10.

Second-Quarter GAAP Operating (non-GAAP) Reconciliation

Second-quarter operating (non-GAAP) diluted earnings exclude \$0.17 per share of charges: \$0.11 per share for the amortization of purchased intangible assets and other acquisition-related charges, and \$0.06 per share for retirement-related charges driven by changes to plan assets and liabilities primarily related to market performance.

Full-Year 2012 Expectations

IBM raised its expectations for full-year 2012 GAAP diluted earnings per share to at least \$14.40 from at least \$14.27 and operating (non-GAAP) diluted earnings per share to at least \$15.10 from at least \$15.00. The 2012 operating (non-GAAP) earnings expectations exclude \$0.70 per share of charges for amortization of purchased intangible assets, other acquisition-related charges, and retirement-related charges driven by changes to plan assets and liabilities primarily related to market performance.

Geographic Regions

The Americas second-quarter revenues were \$11.1 billion, a decrease of 1 percent (up 1 percent, adjusting for currency) from the 2011 period. Revenues from Europe/Middle East/Africa were \$7.9 billion, down 9 percent (flat, adjusting for currency). Asia-Pacific revenues increased 2 percent (up 4 percent, adjusting for currency) to \$6.3 billion. OEM revenues were \$512 million, down 24 percent compared with the 2011 second quarter.

Growth Markets

Revenues from the company's growth markets increased 2 percent (up 8 percent, adjusting for currency) and more than 30 countries had double-digit revenue growth, adjusting for currency. Revenues in the BRIC countries - Brazil, Russia, India and China - increased 5 percent (up 12 percent, adjusting for currency).

Services

Global Technology Services segment revenues decreased 2 percent (up 2 percent, adjusting for currency) to \$10.0 billion. Global Business Services segment revenues were down 4 percent (down 1 percent, adjusting for currency) to \$4.7 billion.

Pre-tax income from Global Technology Services increased 24 percent and pre-tax margin increased to 17.1 percent. Global Business Services pre-tax income increased 7 percent and pre-tax margin increased to 16.6 percent.

The estimated services backlog at June 30 was \$136 billion, down 6 percent year over year at actual rates (flat, adjusting for currency).

Software

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Revenues from the Software segment were \$6.2 billion, flat (up 4 percent, adjusting for currency) compared with the second quarter of 2011. Software pre-tax income increased 8 percent and pre-tax margin increased to 35.9 percent.

Revenues from IBM's key middleware products, which include WebSphere, Information Management, Tivoli, Lotus and Rational products, were \$3.9 billion, flat (up 4 percent, adjusting for currency) versus the second quarter of 2011. Operating systems revenues of \$628 million were flat (up 3 percent, adjusting for currency) compared with the prior-year quarter.

Revenues from the WebSphere family of software products increased 3 percent year over year. Information Management software revenues decreased 1 percent. Revenues from Tivoli software increased 2 percent. Revenues from Lotus software decreased 8 percent, and Rational software decreased 7 percent.

Hardware

Revenues from the Systems and Technology segment totaled \$4.3 billion for the quarter, down 9 percent (down 7 percent, adjusting for currency) from the second quarter of 2011. Systems and Technology pre-tax income decreased \$159 million.

Total systems revenues decreased 7 percent (down 5 percent, adjusting for currency). Revenues from Power Systems were down 7 percent compared with the 2011 period. Revenues from System x were down 8 percent. Revenues from System z mainframe server products decreased 11 percent compared with the year-ago period. Total delivery of System z computing power, as measured in MIPS (millions of instructions per second), decreased 8 percent. Revenues from System Storage decreased 4 percent, and revenues from Retail Store Solutions decreased 4 percent year over year. Revenues from Microelectronics OEM decreased 22 percent.

Financing

Global Financing segment revenues were flat (up 4 percent, adjusting for currency) in the second quarter at \$517 million. Pre-tax income for the segment increased 6 percent to \$528 million.

The company's total gross profit margin was 47.6 percent in the 2012 second quarter compared with 46.4 percent in the 2011 second-quarter period. Total operating (non-GAAP) gross profit margin was 48.2 percent in the 2012 second quarter compared with 46.8 percent in the 2011 second-quarter period, with increases in Global Technology Services and Global Business Services.

Total expense and other income decreased 5 percent to \$7.1 billion compared with the prior-year period. S,G&A expense of \$5.8 billion decreased 3 percent year over year. R,D&E expense of \$1.6 billion increased 1 percent compared with the year-ago period. Intellectual property and custom development income decreased to \$289 million compared with \$295 million a year ago. Other (income) and expense was income of \$132 million compared with prior-year expense of \$97 million. Interest expense increased to \$117 million compared with \$97 million in the prior year.

Total operating (non-GAAP) expense and other income decreased 6 percent to \$7.0 billion compared with the prior-year period. Operating (non-GAAP) S,G&A expense of \$5.7 billion decreased 4 percent compared with prior-year expense. Operating (non-GAAP) R,D&E expense of \$1.6 billion was flat compared with the year-ago period.

Pre-tax income increased 6 percent to \$5.2 billion and pre-tax margin of 20.0 percent, up 1.7 points compared with the prior-year period. Operating (non-GAAP) pre-tax income increased 8 percent to \$5.4 billion and pre-tax margin was 21.1 percent, up 2.2 points.

IBM's tax rate was 24.8 percent, down 0.2 points year over year; operating (non-GAAP) tax rate was 25.0 percent, flat compared to the year-ago period.

Net income margin increased 1.3 points to 15.1 percent. Total operating (non-GAAP) net income margin increased 1.6 points to 15.8 percent.

The weighted-average number of diluted common shares outstanding in the second-quarter 2012 was 1.16 billion compared with 1.22 billion shares in the same period of 2011. As of June 30, 2012, there were 1.14 billion basic common shares outstanding.

Debt, including Global Financing, totaled \$32.4 billion, compared with \$31.3 billion at year-end 2011. From a management segment view, Global Financing debt totaled \$22.6 billion versus \$23.3 billion at year-end 2011, resulting in a debt-to-equity ratio of 7.0 to 1. Non-global

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financing debt totaled \$9.8 billion, an increase of \$1.8 billion since year-end 2011, resulting in a debt-to-capitalization ratio of 36.1 percent from 32.0 percent.

IBM ended the second-quarter 2012 with \$11.2 billion of cash on hand and generated free cash flow of \$3.7 billion, excluding Global Financing receivables, up approximately \$0.3 billion year over year. The company returned \$4.0 billion to shareholders through \$1.0 billion in dividends and \$3.0 billion of share repurchases.

Year-To-Date 2012 Results

Net income for the six months ended June 30, 2012 was \$6.9 billion compared with \$6.5 billion in the year-ago period, an increase of 6 percent. Diluted earnings per share were \$5.95 compared with \$5.30 per diluted share for the 2011 period, an increase of 12 percent. Revenues for the six-month period totaled \$50.5 billion, a decrease of 2 percent (up 1 percent, adjusting for currency) compared with \$51.3 billion for the six months of 2011.

Operating (non-GAAP) net income for the six months ended June 30, 2012 was \$7.3 billion compared with \$6.8 billion in the year-ago period, an increase of 9 percent. Operating (non-GAAP) diluted earnings per share were \$6.29 compared with \$5.50 per diluted share for the 2011 period, an increase of 14 percent.

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. Forward-looking statements are based on the company's current assumptions regarding future business and financial performance. These statements involve a number of risks, uncertainties

and other factors that could cause actual results to differ materially, including the following: a downturn in economic environment and corporate IT spending budgets; the company's failure to meet growth and productivity objectives, a failure of the company's innovation initiatives; risks from investing in growth opportunities; failure of the company's intellectual property portfolio to prevent competitive offerings and the failure of the company to obtain necessary licenses; cybersecurity and data privacy considerations; fluctuations in financial results and purchases, impact of local legal, economic, political and health conditions; adverse effects from environmental matters, tax matters and the company's pension plans; ineffective internal controls; the company's use of accounting estimates; the company's ability to attract and retain key personnel and its reliance on critical skills; impacts of relationships with critical suppliers and business with government clients; currency fluctuations and customer financing risks; impact of changes in market liquidity conditions and customer credit risk on receivables; reliance on third party distribution channels; the company's ability to successfully manage acquisitions and alliances; 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. Any forward-looking statement in this release speaks only as of the date on which it is made. 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 and expectations

- presenting operating (non-GAAP) earnings per share amounts and related income statement items;
- presenting non-global financing debt-to-capitalization ratio;
- 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 supplemental materials presented within the second-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 Supplemental 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. EDT, today. The Webcast may be viewed at www.ibm.com/investor/2q12. Presentation charts will be available on the Web site shortly before the Webcast.

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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

(Unaudited; Dollars in millions except per share amounts)

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|--|--------------------------------|---------------|-------------------|------------------------------|---------------|-------------------|
| | 2012 | 2011 | Percent Change | 2012 | 2011 | Percent Change |
| REVENUE | | | | | | |
| Global Technology Services | \$ 9,995 | \$ 10,241 | -2.4% | \$ 20,031 | \$ 20,104 | -0.4% |
| Gross profit margin | 36.3% | 34.0% | | 35.8% | 33.9% | |
| Global Business Services | 4,667 | 4,866 | -4.1% | 9,304 | 9,575 | -2.8% |
| Gross profit margin | 30.7% | 28.9% | | 29.4% | 28.2% | |
| Software | 6,171 | 6,169 | 0.0% | 11,770 | 11,478 | 2.5% |
| Gross profit margin | 88.4% | 88.4% | | 87.7% | 87.8% | |
| Systems and Technology | 4,259 | 4,681 | -9.0% | 8,008 | 8,700 | -7.9% |
| Gross profit margin | 38.3% | 40.6% | | 36.4% | 39.3% | |
| Global Financing | 517 | 519 | -0.4% | 1,006 | 1,035 | -2.8% |
| Gross profit margin | 46.0% | 48.7% | | 48.3% | 51.1% | |
| Other | 175 | 191 | -8.4% | 336 | 381 | -11.7% |
| Gross profit margin | -60.0% | -57.7% | | -67.1% | -75.5% | |
| TOTAL REVENUE | 25,783 | 26,666 | -3.3% | 50,456 | 51,273 | -1.6% |
| GROSS PROFIT | 12,281 | 12,385 | -0.8% | 23,400 | 23,243 | 0.7% |
| Gross margin | 47.6% | 46.4% | | 46.4% | 45.3% | |
| EXPENSE AND OTHER INCOME | | | | | | |
| S,G&A | 5,837 | 6,030 | -3.2% | 11,723 | 11,856 | -1.1% |
| Expense to revenue | 22.6% | 22.6% | | 23.2% | 23.1% | |
| R,D&E | 1,587 | 1,569 | 1.1% | 3,188 | 3,156 | 1.0% |
| Expense to revenue | 6.2% | 5.9% | | 6.3% | 6.2% | |
| Intellectual property and custom development income | (289) | (295) | -1.8% | (545) | (557) | -2.2% |
| Other (income) and expense | (132) | 97 | NM | (190) | (105) | 80.9% |
| Interest expense | 117 | 97 | 20.4% | 226 | 190 | 19.1% |
| TOTAL EXPENSE AND OTHER INCOME | 7,120 | 7,500 | -5.1% | 14,403 | 14,541 | -0.9% |
| Expense to revenue | 27.6% | 28.1% | | 28.5% | 28.4% | |
| INCOME BEFORE INCOME TAXES | | | | | | |
| Pre-tax margin | 20.0% | 18.3% | | 17.8% | 17.0% | |

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| | | | | | | |
|--|-----------------|-----------------|--------------|-----------------|-----------------|--------------|
| Provision for income taxes | 1,280 | 1,221 | 4.8% | 2,049 | 2,175 | -5.8% |
| Effective tax rate | 24.8% | 25.0% | | 22.8% | 25.0% | |
| NET INCOME | \$ 3,881 | \$ 3,664 | 5.9% | \$ 6,948 | \$ 6,526 | 6.5% |
| Net income margin | 15.1% | 13.7% | | 13.8% | 12.7% | |
| EARNINGS PER SHARE OF COMMON STOCK: | | | | | | |
| ASSUMING DILUTION | \$ 3.34 | \$ 3.00 | 11.3% | \$ 5.95 | \$ 5.30 | 12.3% |
| BASIC | \$ 3.38 | \$ 3.04 | 11.2% | \$ 6.02 | \$ 5.38 | 11.9% |
| WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUT- STANDING (M s): | | | | | | |
| ASSUMING DILUTION | 1,161.9 | 1,221.4 | | 1,168.1 | 1,230.7 | |
| BASIC | 1,149.0 | 1,204.8 | | 1,154.1 | 1,213.5 | |

NM Not Meaningful

INTERNATIONAL BUSINESS MACHINES CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

| (Dollars in Millions) | At June 30, 2012 | At December 31, 2011 |
|---|------------------------|----------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 10,864 | \$ 11,922 |
| Marketable securities | 323 | |
| Notes and accounts receivable - trade (net of allowances of \$264 in 2012 and \$256 in 2011) | 10,172 | 11,179 |
| Short-term financing receivables (net of allowances of \$271 in 2012 and \$311 in 2011) | 14,982 | 16,901 |
| Other accounts receivable (net of allowances of \$11 in 2012 and \$11 in 2011) | 1,703 | 1,481 |
| Inventories, at lower of average cost or market: | | |
| Finished goods | 752 | 589 |
| Work in process and raw materials | 2,006 | 2,007 |
| Total inventories | 2,758 | 2,595 |
| Deferred taxes | 1,478 | 1,601 |
| Prepaid expenses and other current assets | 5,113 | 5,249 |
| Total Current Assets | 47,392 | 50,928 |
| Property, plant and equipment | 40,158 | 40,124 |
| Less: Accumulated depreciation | 26,293 | 26,241 |
| Property, plant and equipment - net | 13,865 | 13,883 |
| Long-term financing receivables (net of allowances of \$55 in 2012 and \$38 in 2011) | 10,795 | 10,776 |
| Prepaid pension assets | 2,862 | 2,843 |
| Deferred taxes | 2,795 | 3,503 |
| Goodwill | 27,735 | 26,213 |
| Intangible assets - net | 3,657 | 3,392 |
| Investments and sundry assets | 4,730 | 4,895 |
| Total Assets | \$ 113,832 | \$ 116,433 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities: | | |
| Taxes | \$ 2,183 | \$ 3,313 |
| Short-term debt | 7,669 | 8,463 |
| Accounts payable | 7,482 | 8,517 |
| Compensation and benefits | 4,656 | 5,099 |
| Deferred income | 12,311 | 12,197 |
| Other accrued expenses and liabilities | 4,602 | 4,535 |
| Total Current Liabilities | 38,903 | 42,123 |

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| | | |
|--|-------------------|-------------------|
| Long-term debt | 24,766 | 22,857 |
| Retirement and nonpension postretirement benefit obligations | 16,544 | 18,374 |
| Deferred income | 3,889 | 3,847 |
| Other liabilities | 9,166 | 8,996 |
| Total Liabilities | 93,269 | 96,197 |
| Equity: | | |
| IBM Stockholders' Equity: | | |
| Common stock | 49,157 | 48,129 |
| Retained earnings | 109,928 | 104,857 |
| Treasury stock at cost | (117,116) | (110,963) |
| Accumulated other comprehensive income/(loss) | (21,498) | (21,885) |
| Total IBM stockholders' equity | 20,472 | 20,138 |
| Noncontrolling interests | 92 | 97 |
| Total Equity | 20,563 | 20,236 |
| Total Liabilities and Equity | \$ 113,832 | \$ 116,433 |

INTERNATIONAL BUSINESS MACHINES CORPORATION

CASH FLOW ANALYSIS

(Unaudited)

| (Dollars in Millions) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------|------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Net Cash from Operating Activities per GAAP: | \$ 4,435 | \$ 4,279 | \$ 8,726 | \$ 8,071 |
| Less: the change in Global Financing (GF) Receivables | (507) | (33) | 918 | 1,903 |
| Net Cash from Operating Activities (Excluding GF Receivables) | 4,942 | 4,313 | 7,809 | 6,168 |
| Capital Expenditures, Net | (1,278) | (952) | (2,279) | (2,010) |
| Free Cash Flow (Excluding GF Receivables) | 3,664 | 3,361 | 5,529 | 4,159 |
| Acquisitions | (606) | (107) | (1,925) | (159) |
| Divestitures | 13 | 4 | 13 | 4 |
| Dividends | (978) | (905) | (1,848) | (1,700) |
| Share Repurchase | (2,988) | (3,976) | (6,002) | (8,021) |
| Non-GF Debt | 933 | (20) | 1,590 | 1,007 |
| Other (includes GF Receivables, and GF Debt) | (1,187) | 162 | 1,907 | 4,822 |
| Change in Cash, Cash Equivalents and Short-term Marketable Securities | \$ (1,148) | \$ (1,481) | \$ (736) | \$ 113 |

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

SECOND-QUARTER 2012

| (Dollars in Millions) | External | Revenue Internal | Total | Pre-tax Income/ (Loss) | Pre-tax Margin |
|----------------------------------|------------------|---------------------|------------------|------------------------------|-------------------|
| SEGMENTS | | | | | |
| Global Technology Services | \$ 9,995 | \$ 291 | \$ 10,286 | \$ 1,757 | 17.1% |
| Y-T-Y change | -2.4% | -9.1% | -2.6% | 23.7% | |
| Global Business Services | 4,667 | 180 | 4,847 | 803 | 16.6% |
| Y-T-Y change | -4.1% | -12.2% | -4.4% | 7.0% | |
| Software | 6,171 | 776 | 6,946 | 2,493 | 35.9% |
| Y-T-Y change | 0.0% | -2.0% | -0.2% | 7.9% | |
| Systems and Technology | 4,259 | 159 | 4,418 | 234 | 5.3% |
| Y-T-Y change | -9.0% | -27.3% | -9.8% | -40.4% | |
| Global Financing | 517 | 515 | 1,032 | 528 | 51.1% |
| Y-T-Y change | -0.4% | -5.7% | -3.2% | 6.4% | |
| TOTAL REPORTABLE SEGMENTS | \$ 25,608 | \$ 1,921 | \$ 27,529 | \$ 5,814 | 21.1% |
| Y-T-Y change | -3.3% | -7.7% | -3.6% | 8.3% | |
| Eliminations / Other | 175 | (1,921) | (1,746) | (653) | |
| TOTAL IBM CONSOLIDATED | \$ 25,783 | \$ (0) | \$ 25,783 | \$ 5,161 | 20.0% |
| Y-T-Y change | -3.3% | | -3.3% | 5.7% | |

SECOND-QUARTER 2011

| (Dollars in Millions) | External | Revenue Internal | Total | Pre-tax Income/ (Loss) | Pre-tax Margin |
|----------------------------------|------------------|---------------------|------------------|------------------------------|-------------------|
| SEGMENTS | | | | | |
| Global Technology Services | \$ 10,241 | \$ 320 | \$ 10,561 | \$ 1,420 | 13.4% |
| Global Business Services | 4,866 | 205 | 5,071 | 750 | 14.8% |
| Software | 6,169 | 792 | 6,961 | 2,310 | 33.2% |
| Systems and Technology | 4,681 | 218 | 4,899 | 393 | 8.0% |
| Global Financing | 519 | 547 | 1,066 | 496 | 46.5% |
| TOTAL REPORTABLE SEGMENTS | \$ 26,476 | \$ 2,082 | \$ 28,558 | \$ 5,370 | 18.8% |

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| | | | | | |
|------------------------|-----------|---------|-----------|----------|-------|
| Eliminations / Other | 191 | (2,082) | (1,891) | (485) | |
| TOTAL IBM CONSOLIDATED | \$ 26,666 | \$ (0) | \$ 26,666 | \$ 4,885 | 18.3% |

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

SIX-MONTHS 2012

| (Dollars in Millions) | External | Revenue Internal | Total | Pre-tax Income/ (Loss) | Pre-tax Margin |
|----------------------------------|------------------|---------------------|------------------|------------------------------|-------------------|
| SEGMENTS | | | | | |
| Global Technology Services | \$ 20,031 | \$ 584 | \$ 20,615 | \$ 3,237 | 15.7% |
| Y-T-Y change | -0.4% | -6.9% | -0.6% | 21.8% | |
| Global Business Services | 9,304 | 363 | 9,667 | 1,404 | 14.5% |
| Y-T-Y change | -2.8% | -10.5% | -3.1% | 1.0% | |
| Software | 11,770 | 1,615 | 13,386 | 4,438 | 33.2% |
| Y-T-Y change | 2.5% | -0.4% | 2.2% | 9.7% | |
| Systems and Technology | 8,008 | 309 | 8,317 | 130 | 1.6% |
| Y-T-Y change | -7.9% | -33.1% | -9.2% | -75.3% | |
| Global Financing | 1,006 | 1,000 | 2,006 | 1,040 | 51.8% |
| Y-T-Y change | -2.8% | -4.2% | -3.5% | 2.4% | |
| TOTAL REPORTABLE SEGMENTS | \$ 50,120 | \$ 3,872 | \$ 53,991 | \$ 10,248 | 19.0% |
| Y-T-Y change | -1.5% | -6.9% | -1.9% | 6.4% | |
| Eliminations / Other | 336 | (3,872) | (3,535) | (1,252) | |
| TOTAL IBM CONSOLIDATED | \$ 50,456 | \$ (0) | \$ 50,456 | \$ 8,997 | 17.8% |
| Y-T-Y change | -1.6% | | -1.6% | 3.4% | |

SIX-MONTHS 2011

| (Dollars in Millions) | External | Revenue Internal | Total | Pre-tax Income/ (Loss) | Pre-tax Margin |
|----------------------------------|------------------|---------------------|------------------|------------------------------|-------------------|
| SEGMENTS | | | | | |
| Global Technology Services | \$ 20,104 | \$ 627 | \$ 20,732 | \$ 2,658 | 12.8% |
| Global Business Services | 9,575 | 405 | 9,980 | 1,390 | 13.9% |
| Software | 11,478 | 1,621 | 13,099 | 4,045 | 30.9% |
| Systems and Technology | 8,700 | 462 | 9,162 | 525 | 5.7% |
| Global Financing | 1,035 | 1,044 | 2,079 | 1,015 | 48.8% |
| TOTAL REPORTABLE SEGMENTS | \$ 50,892 | \$ 4,160 | \$ 55,052 | \$ 9,634 | 17.5% |

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| | | | | | | |
|------------------------|-----------|---------|-----------|----------|-------|--|
| Eliminations / Other | 381 | (4,160) | (3,779) | (932) | | |
| TOTAL IBM CONSOLIDATED | \$ 51,273 | \$ (0) | \$ 51,273 | \$ 8,702 | 17.0% | |

INTERNATIONAL BUSINESS MACHINES CORPORATION

U.S. GAAP TO OPERATING RESULTS RECONCILIATION

(Unaudited; Dollars in millions except per share amounts)

| | SECOND-QUARTER 2012 | | | |
|--------------------------------|---------------------|---|---|-------------------------|
| | GAAP | Acquisition- Related Adjustments* | Retirement- Related Adjustments** | Operating (Non-GAAP) |
| Gross Profit | \$ 12,281 | \$ 93 | \$ 66 | \$ 12,440 |
| Gross Profit Margin | 47.6% | 0.4Pts | 0.3Pts | 48.2% |
| S,G&A | 5,837 | (87) | (33) | 5,717 |
| R,D&E | 1,587 | 0 | 5 | 1,592 |
| Other (Income) & Expense | (132) | (1) | 0 | (133) |
| Total Expense & Other (Income) | 7,120 | (88) | (28) | 7,004 |
| Pre-Tax Income | 5,161 | 181 | 94 | 5,436 |
| Pre-Tax Income Margin | 20.0% | 0.7Pts | 0.4Pts | 21.1% |
| Provision for Income Taxes*** | 1,280 | 49 | 30 | 1,359 |
| Effective Tax Rate | 24.8% | 0.1Pts | 0.1Pts | 25.0% |
| Net Income | 3,881 | 132 | 64 | 4,077 |
| Net Income Margin | 15.1% | 0.5Pts | 0.2Pts | 15.8% |
| Diluted Earnings Per Share | \$ 3.34 | \$ 0.11 | \$ 0.06 | \$ 3.51 |

| | SECOND-QUARTER 2011 | | | |
|--------------------------------|---------------------|---|---|-------------------------|
| | GAAP | Acquisition- Related Adjustments* | Retirement- Related Adjustments** | Operating (Non-GAAP) |
| Gross Profit | \$ 12,385 | \$ 87 | \$ 6 | \$ 12,477 |
| Gross Profit Margin | 46.4% | 0.3Pts | 0.0pts | 46.8% |
| S,G&A | 6,030 | (76) | (5) | 5,950 |
| R,D&E | 1,569 | 0 | 24 | 1,593 |
| Other (Income) & Expense | 97 | (1) | 0 | 96 |
| Total Expense & Other (Income) | 7,500 | (77) | 18 | 7,441 |
| Pre-Tax Income | 4,885 | 163 | (12) | 5,036 |

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| | | | | |
|-------------------------------|---------|---------|-----------|---------|
| Pre-Tax Income Margin | 18.3% | 0.6Pts | -0.0Pts | 18.9% |
| Provision for Income Taxes*** | 1,221 | 38 | 0 | 1,259 |
| Effective Tax Rate | 25.0% | -0.1Pts | 0.1Pts | 25.0% |
| Net Income | 3,664 | 126 | (13) | 3,777 |
| Net Income Margin | 13.7% | 0.5Pts | -0.0Pts | 14.2% |
| Diluted Earnings Per Share | \$ 3.00 | \$ 0.10 | \$ (0.01) | \$ 3.09 |

* Includes amortization of acquired intangible assets and other acquisition-related charges.

** Includes retirement-related items driven by changes to plan assets and liabilities primarily related to market performance.

*** Tax impact on operating (non-GAAP) pre-tax income is calculated under the same accounting principles applied to the GAAP pre-tax income which employs an annual effective tax rate method to the results.

INTERNATIONAL BUSINESS MACHINES CORPORATION

U.S. GAAP TO OPERATING RESULTS RECONCILIATION

(Unaudited; Dollars in millions except per share amounts)

| | SIX-MONTHS 2012 | | | |
|--------------------------------|-----------------|---|---|-------------------------|
| | GAAP | Acquisition- Related Adjustments* | Retirement- Related Adjustments** | Operating (Non-GAAP) |
| Gross Profit | \$ 23,400 | \$ 181 | \$ 137 | \$ 23,718 |
| Gross Profit Margin | 46.4% | 0.4Pts | 0.3Pts | 47.0% |
| S,G&A | 11,723 | (171) | (69) | 11,483 |
| R,D&E | 3,188 | 0 | 10 | 3,197 |
| Other (Income) & Expense | (190) | (2) | 0 | (192) |
| Total Expense & Other (Income) | 14,403 | (172) | (60) | 14,171 |
| Pre-Tax Income | 8,997 | 354 | 197 | 9,547 |
| Pre-Tax Income Margin | 17.8% | 0.7Pts | 0.4Pts | 18.9% |
| Provision for Income Taxes*** | 2,049 | 96 | 60 | 2,205 |
| Effective Tax Rate | 22.8% | 0.2Pts | 0.2Pts | 23.1% |
| Net Income | 6,948 | 258 | 137 | 7,342 |
| Net Income Margin | 13.8% | 0.5Pts | 0.3Pts | 14.6% |
| Diluted Earnings Per Share | \$ 5.95 | \$ 0.22 | \$ 0.12 | \$ 6.29 |

| | SIX-MONTHS 2011 | | | |
|--------------------------------|-----------------|---|---|-------------------------|
| | GAAP | Acquisition- Related Adjustments* | Retirement- Related Adjustments** | Operating (Non-GAAP) |
| Gross Profit | \$ 23,243 | \$ 172 | \$ 19 | \$ 23,434 |
| Gross Profit Margin | 45.3% | 0.3Pts | 0.0Pts | 45.7% |
| S,G&A | 11,856 | (152) | (15) | 11,689 |
| R,D&E | 3,156 | 0 | 43 | 3,199 |
| Other (Income) & Expense | (105) | (5) | 0 | (110) |
| Total Expense & Other (Income) | 14,541 | (157) | 28 | 14,412 |
| Pre-Tax Income | 8,702 | 329 | (8) | 9,022 |

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| | | | | |
|-------------------------------|---------|---------|-----------|---------|
| Pre-Tax Income Margin | 17.0% | 0.6Pts | -0.0Pts | 17.6% |
| Provision for Income Taxes*** | 2,175 | 86 | (5) | 2,256 |
| Effective Tax Rate | 25.0% | 0.0Pts | 0.0Pts | 25.0% |
| Net Income | 6,526 | 243 | (3) | 6,767 |
| Net Income Margin | 12.7% | 0.5Pts | -0.0Pts | 13.2% |
| Diluted Earnings Per Share | \$ 5.30 | \$ 0.20 | \$ (0.00) | \$ 5.50 |

* Includes amortization of acquired intangible assets and other acquisition-related charges.

** Includes retirement-related items driven by changes to plan assets and liabilities primarily related to market performance.

*** Tax impact on operating (non-GAAP) pre-tax income is calculated under the same accounting principles applied to the GAAP pre-tax income which employs an annual effective tax rate method to the results.

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