

INTERNATIONAL BUSINESS MACHINES CORP
Form 8-K
October 16, 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: **October 16, 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)

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:

- 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 October 16, 2012, regarding its financial results for the periods ended September 30, 2012, including consolidated financial statements for the periods ended September 30, 2012, is Attachment I of this Form 8-K. Attachment II are the slides for IBM's Chief Financial Officer Mark Loughridge's third quarter earnings presentation on October 16, 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 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: October 16, 2012

By:

/s/ James J. Kavanaugh

James J. Kavanaugh
Vice President and Controller

IBM REPORTS 2012 THIRD-QUARTER RESULTS

- Diluted EPS:
 - GAAP: \$3.33, up 4 percent; \$3.44, up 8 percent excluding UK pension-related charges;
 - Operating (non-GAAP): \$3.62, up 10 percent;
- Net income:
 - GAAP: \$3.8 billion, flat; \$3.9 billion, up 3 percent excluding UK pension-related charges;
 - Operating (non-GAAP): \$4.2 billion, up 5 percent;
- Gross profit margin:
 - GAAP: 47.4 percent, up 0.9 points;
 - Operating (non-GAAP): 48.1 percent, up 1.2 points;
- Revenue: \$24.7 billion, down 5 percent, down 2 percent adjusting for currency;
- Negative currency impact of nearly \$1 billion;
- Divestiture of Retail Store Solutions (RSS) reduced revenue by 1 percent;
- Software revenue down 1 percent, up 3 percent adjusting for currency;
- Services revenue down 5 percent, flat adjusting for currency;
- Services backlog of \$138 billion, up 1 percent;
- Systems and Technology revenue down 13 percent, down 12 percent adjusting for currency;
- Growth markets revenue down 1 percent, up 4 percent adjusting for currency;
- BRIC countries up 4 percent, up 11 percent adjusting for currency;
- Business analytics revenue up 14 percent year to date;
- Smarter Planet revenue up more than 20 percent year to date;
- Cloud revenue year to date has exceeded full-year 2011 revenue;
- Reiterating full-year 2012 operating (non-GAAP) EPS expectation of at least \$15.10.

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ARMONK, N.Y., October 16, 2012 . . . IBM (NYSE: IBM) today announced third-quarter 2012 diluted earnings of \$3.33 per share, a year-to-year increase of 4 percent, or \$3.44 per share, up 8 percent excluding the impact of UK pension-related charges. Operating (non-GAAP) diluted earnings were \$3.62 per share, compared with operating diluted earnings of \$3.28 per share in the third quarter of 2011, an increase of 10 percent.

Third-quarter net income was \$3.8 billion, flat year-to-year; or \$3.9 billion, up 3 percent excluding the impact of UK pension-related charges. Operating (non-GAAP) net income was \$4.2 billion compared with \$4.0 billion in the third quarter of 2011, an increase of 5 percent.

Total revenues for the third quarter of 2012 of \$24.7 billion were down 5 percent (down 2 percent, adjusting for currency) from the third quarter of 2011. Currency negatively impacted revenue growth by nearly \$1 billion.

In the third quarter, we continued to drive margin, profit and earnings growth through our focus on higher-value businesses, strategic growth initiatives and productivity, said Ginni Rometty, IBM chairman, president and chief executive officer.

Looking ahead, we see good opportunity with a strong product lineup heading into this quarter and annuity businesses that provide a solid base of revenue, profit and cash. We are reiterating our full-year 2012 operating earnings per share expectation of at least \$15.10.

Third-Quarter GAAP Operating (non-GAAP) Reconciliation

Third-quarter operating (non-GAAP) diluted earnings exclude \$0.29 per share of charges: \$0.12 per share for the amortization of purchased intangible assets and other acquisition-related charges, and \$0.17 per share for retirement-related charges, including \$0.11 per share for the impact of UK pension-related charges.

Full-Year 2012 Expectations

IBM is adjusting its expectation for full-year 2012 GAAP diluted earnings per share to at least \$14.29, to reflect the impact of UK pension-related charges. Operating (non-GAAP) diluted earnings per share expectations remain at least \$15.10. The 2012 operating (non-GAAP) earnings expectations exclude \$0.81 per share of charges for amortization of purchased intangible assets, other acquisition-related charges, and retirement-related charges.

Geographic Regions

The Americas third-quarter revenues were \$10.4 billion, a decrease of 4 percent (down 3 percent, adjusting for currency) from the 2011 period. Revenues from Europe/Middle East/Africa were \$7.2 billion, down 9 percent (down 1 percent, adjusting for currency). Asia-Pacific revenues increased 1 percent (up 2 percent, adjusting for currency) to \$6.5 billion. OEM revenues were \$538 million, down 28 percent compared with the 2011 third quarter.

Growth Markets

Revenues from the company's growth markets decreased 1 percent (up 4 percent, adjusting for currency) and 35 countries had double-digit revenue growth, adjusting for currency. Revenues in the BRIC countries (Brazil, Russia, India and China) increased 4 percent (up 11 percent, adjusting for currency).

Services

Global Technology Services segment revenues decreased 4 percent (up 1 percent, adjusting for currency) to \$9.9 billion. Global Business Services segment revenues were down 6 percent (down 3 percent, adjusting for currency) to \$4.5 billion.

Pre-tax income from Global Technology Services was flat and pre-tax margin increased to 16.6 percent (up 9 percent and 18.1 percent, respectively, when adjusted for workforce rebalancing charges in the third quarters of 2011 and 2012). Global Business Services pre-tax income decreased 5 percent and pre-tax margin increased to 15.6 percent (up 9 percent and 18 percent, respectively, when adjusted for workforce rebalancing charges in the third quarters of 2011 and 2012).

The estimated services backlog at September 30 was \$138 billion, up 1 percent year over year at actual rates (up 1 percent, adjusting for currency).

Software

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Revenues from the Software segment were \$5.8 billion, down 1 percent (up 3 percent, adjusting for currency) compared with the third quarter of 2011. Software pre-tax income increased 6 percent and pre-tax margin increased to 35.6 percent (up 10 percent and 37.1 percent, respectively, when adjusted for workforce rebalancing charges in the third quarters of 2011 and 2012).

Revenues from IBM's key middleware products, which include WebSphere, Information Management, Tivoli, Lotus and Rational products, were \$3.6 billion, down 1 percent (up 3 percent, adjusting for currency) versus the third quarter of 2011. Operating systems revenues of \$597 million were flat (up 4 percent, adjusting for currency) compared with the prior-year quarter.

Revenues from the WebSphere family of software products increased 2 percent year over year. Information Management software revenues decreased 1 percent. Revenues from Tivoli software increased 5 percent. Revenues from Lotus software decreased 10 percent, and Rational software decreased 16 percent.

Hardware

Revenues from the Systems and Technology segment totaled \$3.9 billion for the quarter, down 13 percent (down 12 percent, adjusting for currency) from the third quarter of 2011. Excluding Retail Store Solutions (RSS), revenues were down 11 percent (9 percent, adjusting for currency). Systems and Technology pre-tax income decreased \$0.2 billion.

Total systems revenues, excluding RSS, decreased 8 percent (down 6 percent, adjusting for currency). Revenues from Power Systems were down 2 percent compared

with the 2011 period. Revenues from System x were down 5 percent. Revenues from System z mainframe server products decreased 20 percent compared with the year-ago period. Total delivery of System z computing power, as measured in MIPS (millions of instructions per second), decreased 2 percent. Revenues from System Storage decreased 10 percent. Revenues from Retail Store Solutions decreased 79 percent year over year as a result of the divestiture in the quarter. Revenues from Microelectronics OEM decreased 25 percent.

Financing

Global Financing segment revenues were down 9 percent (down 5 percent, adjusting for currency) in the third quarter at \$472 million. Pre-tax income for the segment decreased 1 percent to \$476 million.

Gross Profit

The company's total gross profit margin was 47.4 percent in the 2012 third quarter compared with 46.5 percent in the 2011 third-quarter period. Total operating (non-GAAP) gross profit margin was 48.1 percent in the 2012 third quarter compared with 46.8 percent in the 2011 third-quarter period, with increases in Global Technology Services and Global Business Services.

Expense

Total expense and other income decreased 7 percent to \$6.7 billion, or a decrease of 9 percent to \$6.5 billion, excluding \$162 million for UK pension-related charges, compared with the prior-year period. S,G&A expense of \$5.9 billion increased 4 percent year over year, or expense of \$5.7 billion, up 1 percent excluding the impact of UK pension-related charges. S,G&A expense includes \$408 million for workforce rebalancing, which negatively impacted net income by approximately \$310 million. R,D&E expense of \$1.5 billion decreased 1 percent compared with the year-ago period. Intellectual property and custom development income increased to \$303 million compared with \$298 million a year ago. Other (income) and expense was income of \$606 million compared with prior-year expense of \$128 million. This increase in income was primarily due to a \$447 million gain from the divestiture of Retail Store Solutions, which contributed approximately \$280 million to net income. Interest expense increased to \$124 million compared with \$107 million in the prior year.

Total operating (non-GAAP) expense and other income decreased 10 percent to \$6.4 billion compared with the prior-year period. Operating (non-GAAP) S,G&A expense of \$5.6 billion increased 1 percent compared with prior-year expense. Operating (non-GAAP) R,D&E expense of \$1.5 billion decreased 2 percent compared with the year-ago period.

Pre-tax income increased 1 percent to \$5.1 billion, or 4 percent to \$5.2 billion excluding the impact of UK pension-related charges. Pre-tax margin increased 1.3 points to 20.5 percent, or 1.9 points to 21.2 percent excluding the impact of UK pension-related charges, compared with the prior-year period. Operating (non-GAAP) pre-tax income increased 7 percent to \$5.5 billion and pre-tax margin was 22.3 percent, up 2.5 points.

IBM's tax rate was 24.6 percent, up 1.0 points year over year; operating (non-GAAP) tax rate was 24.7 percent, up 1.1 points compared to the year-ago period.

Net income margin increased 0.8 points to 15.5 percent, or 1.3 points to 16.0 percent excluding the impact of UK pension-related charges. Total operating (non-GAAP) net income margin increased 1.7 points to 16.8 percent.

The weighted-average number of diluted common shares outstanding in the third-quarter 2012 was 1.15 billion compared with 1.20 billion shares in the same period of 2011. As of September 30, 2012, there were 1.13 billion basic common shares outstanding.

Debt, including Global Financing, totaled \$33.7 billion, compared with \$31.3 billion at year-end 2011. From a management segment view, Global Financing debt totaled \$23.3 billion versus \$23.3 billion at year-end 2011, resulting in a debt-to-equity ratio of 7.1 to 1. Non-global financing debt totaled \$10.3 billion, an increase of \$2.4 billion since year-end 2011, resulting in a debt-to-capitalization ratio of 36.0 percent from 32.0 percent.

IBM ended the third-quarter 2012 with \$12.3 billion of cash on hand and generated free cash flow of \$3.1 billion, excluding Global Financing receivables, down 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. The balance sheet remains strong, and the company is well positioned to support the business over the long term.

Year-To-Date 2012 Results

Net income for the nine months ended September 30, 2012 was \$10.8 billion, a year-to-year increase of 4 percent, or \$10.9 billion, up 5 percent, excluding the impact of UK pension-related charges. Diluted earnings per share were \$9.27 compared with \$8.48 per diluted share for the 2011 period, an increase of 9 percent, or \$9.38, up 11 percent excluding the impact of UK pension-related charges. Revenues for the nine-month period totaled \$75.2 billion, a decrease of 3 percent (flat, adjusting for currency) compared with \$77.4 billion for the nine months of 2011.

Operating (non-GAAP) net income for the nine months ended September 30, 2012 was \$11.5 billion compared with \$10.7 billion in the year-ago period, an increase of 7 percent. Operating (non-GAAP) diluted earnings per share were \$9.90 compared with \$8.77 per diluted share for the 2011 period, an increase of 13 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);
- adjusting for workforce rebalancing charges.

The rationale for management's use of non-GAAP measures is included as part of the supplemental materials presented within the third-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/3q12. Presentation charts will be available on the Web site shortly before 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

(Unaudited; Dollars in millions except per share amounts)

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---------|-------------------------------------|------|-------------------|------------------------------------|------|-------------------|
| | 2012 | 2011 | Percent Change | 2012 | 2011 | Percent Change |
| REVENUE | | | | | | |

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| | | | | | | | | | | |
|---|----|---------------|----|---------------|--------------|----|---------------|----|---------------|--------------|
| Global Technology Services | \$ | 9,922 | \$ | 10,322 | -3.9% | \$ | 29,952 | \$ | 30,427 | -1.6% |
| Gross profit margin | | 37.3% | | 35.7% | | | 36.3% | | 34.5% | |
| Global Business Services | | 4,542 | | 4,832 | -6.0% | | 13,846 | | 14,407 | -3.9% |
| Gross profit margin | | 31.2% | | 29.4% | | | 30.0% | | 28.6% | |
| Software | | 5,763 | | 5,817 | -0.9% | | 17,533 | | 17,295 | 1.4% |
| Gross profit margin | | 88.0% | | 88.1% | | | 87.8% | | 87.9% | |
| Systems and Technology | | 3,895 | | 4,482 | -13.1% | | 11,903 | | 13,182 | -9.7% |
| Gross profit margin | | 37.3% | | 39.8% | | | 36.7% | | 39.5% | |
| Global Financing | | 472 | | 520 | -9.2% | | 1,478 | | 1,555 | -4.9% |
| Gross profit margin | | 45.8% | | 47.4% | | | 47.5% | | 49.9% | |
| Other | | 154 | | 182 | -15.9% | | 490 | | 563 | -13.0% |
| Gross profit margin | | -80.4% | | -48.3% | | | -71.3% | | -66.7% | |
| TOTAL REVENUE | | 24,747 | | 26,157 | -5.4% | | 75,203 | | 77,430 | -2.9% |
| GROSS PROFIT | | 11,732 | | 12,173 | -3.6% | | 35,131 | | 35,416 | -0.8% |
| Gross profit margin | | 47.4% | | 46.5% | | | 46.7% | | 45.7% | |
| EXPENSE AND OTHER | | | | | | | | | | |
| INCOME S,G&A | | 5,908 | | 5,662 | 4.3% | | 17,632 | | 17,518 | 0.6% |
| Expense to revenue | | 23.9% | | 21.6% | | | 23.4% | | 22.6% | |
| R,D&E | | 1,534 | | 1,546 | -0.8% | | 4,722 | | 4,703 | 0.4% |
| Expense to revenue | | 6.2% | | 5.9% | | | 6.3% | | 6.1% | |
| Intellectual property and custom development income | | (303) | | (298) | 1.4% | | (847) | | (855) | -0.9% |
| Other (income) and expense | | (606) | | 128 | NM | | (796) | | 23 | NM |
| Interest expense | | 124 | | 107 | 15.2% | | 350 | | 298 | 17.7% |
| TOTAL EXPENSE AND OTHER INCOME | | 6,657 | | 7,146 | -6.8% | | 21,060 | | 21,687 | -2.9% |
| Expense to revenue | | 26.9% | | 27.3% | | | 28.0% | | 28.0% | |
| INCOME BEFORE | | | | | | | | | | |
| INCOME TAXES | | 5,074 | | 5,027 | 0.9% | | 14,071 | | 13,729 | 2.5% |
| Pre-tax margin | | 20.5% | | 19.2% | | | 18.7% | | 17.7% | |
| Provision for income taxes | | 1,251 | | 1,188 | 5.2% | | 3,300 | | 3,364 | -1.9% |
| Effective tax rate | | 24.6% | | 23.6% | | | 23.5% | | 24.5% | |
| NET INCOME | \$ | 3,824 | \$ | 3,839 | -0.4% | \$ | 10,771 | \$ | 10,365 | 3.9% |
| Net income margin | | 15.5% | | 14.7% | | | 14.3% | | 13.4% | |
| EARNINGS PER SHARE OF COMMON STOCK: | | | | | | | | | | |
| ASSUMING DILUTION | \$ | 3.33 | \$ | 3.19 | 4.4% | \$ | 9.27 | \$ | 8.48 | 9.3% |
| BASIC | \$ | 3.36 | \$ | 3.23 | 4.0% | \$ | 9.38 | \$ | 8.60 | 9.1% |

WEIGHTED-AVERAGE
NUMBER OF COMMON
SHARES OUT- STANDING
(M s):

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| | | | | |
|-------------------|---------|---------|---------|---------|
| ASSUMING DILUTION | 1,149.3 | 1,204.9 | 1,161.8 | 1,222.1 |
| BASIC | 1,137.2 | 1,188.6 | 1,148.4 | 1,205.2 |

NM Not Meaningful

INTERNATIONAL BUSINESS MACHINES CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

| (Dollars in Millions) | At September 30, 2012 | At December 31, 2011 |
|--|-----------------------------|----------------------------|
| ASSETS: | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 11,909 | \$ 11,922 |
| Marketable securities | 345 | |
| Notes and accounts receivable - trade (net of allowances of \$250 in 2012 and \$256 in 2011) | 9,772 | 11,179 |
| Short-term financing receivables (net of allowances of \$277 in 2012 and \$311 in 2011) | 14,925 | 16,901 |
| Other accounts receivable (net of allowances of \$20 in 2012 and \$11 in 2011) | 2,066 | 1,481 |
| Inventories, at lower of average cost or market: | | |
| Finished goods | 649 | 589 |
| Work in process and raw materials | 1,937 | 2,007 |
| Total inventories | 2,586 | 2,595 |
| Deferred taxes | 1,522 | 1,601 |
| Prepaid expenses and other current assets | 5,016 | 5,249 |
| Total Current Assets | 48,141 | 50,928 |
| Property, plant and equipment | 40,716 | 40,124 |
| Less: Accumulated depreciation | 26,688 | 26,241 |
| Property, plant and equipment - net | 14,027 | 13,883 |
| Long-term financing receivables (net of allowances of \$65 in 2012 and \$38 in 2011) | 10,791 | 10,776 |
| Prepaid pension assets | 3,424 | 2,843 |
| Deferred taxes | 2,555 | 3,503 |
| Goodwill | 28,270 | 26,213 |
| Intangible assets - net | 3,565 | 3,392 |
| Investments and sundry assets | 5,006 | 4,895 |
| Total Assets | \$ 115,778 | \$ 116,433 |
| LIABILITIES: | | |
| Current Liabilities: | | |
| Taxes | \$ 2,147 | \$ 3,313 |
| Short-term debt | 9,334 | 8,463 |
| Accounts payable | 7,085 | 8,517 |
| Compensation and benefits | 4,730 | 5,099 |
| Deferred income | 11,230 | 12,197 |
| Other accrued expenses and liabilities | 4,973 | 4,535 |
| Total Current Liabilities | 39,499 | 42,123 |
| Long-term debt | 24,333 | 22,857 |
| Retirement and nonpension postretirement benefit obligations | 16,682 | 18,374 |
| Deferred income | 4,263 | 3,847 |
| Other liabilities | 9,335 | 8,996 |

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| | | |
|---|------------|------------|
| Total Liabilities | 94,112 | 96,197 |
| EQUITY: | | |
| IBM Stockholders' Equity: | | |
| Common stock | 49,603 | 48,129 |
| Retained earnings | 112,773 | 104,857 |
| Treasury stock at cost | (120,115) | (110,963) |
| Accumulated other comprehensive income/(loss) | (20,720) | (21,885) |
| Total IBM stockholders' equity | 21,541 | 20,138 |
| Noncontrolling interests | 126 | 97 |
| Total Equity | 21,666 | 20,236 |
| Total Liabilities and Equity | \$ 115,778 | \$ 116,433 |

INTERNATIONAL BUSINESS MACHINES CORPORATION

CASH FLOW ANALYSIS

(Unaudited)

| (Dollars in Millions) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|-----------|
| | 2012 | 2011 | 2012 | 2011 |
| Net Cash from Operating Activities per GAAP: | \$ 4,514 | \$ 4,678 | \$ 13,240 | \$ 12,750 |
| Less: the change in Global Financing (GF) Receivables | 327 | 207 | 1,245 | 2,110 |
| Net Cash from Operating Activities (Excluding GF Receivables) | 4,187 | 4,471 | 11,995 | 10,640 |
| Capital Expenditures, Net | (1,046) | (991) | (3,326) | (3,000) |
| Free Cash Flow (Excluding GF Receivables) | 3,141 | 3,481 | 8,670 | 7,640 |
| Acquisitions | (342) | (64) | (2,266) | (223) |
| Divestitures | 573 | 0 | 587 | 4 |
| Dividends | (968) | (893) | (2,816) | (2,593) |
| Share Repurchase | (2,986) | (3,444) | (8,988) | (11,465) |
| Non-GF Debt | 694 | 86 | 2,284 | 1,093 |
| Other (includes GF Receivables and GF Debt) | 954 | 374 | 2,861 | 5,196 |
| Change in Cash, Cash Equivalents and Short-term Marketable Securities | \$ 1,067 | \$ (461) | \$ 331 | \$ (348) |

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

THIRD-QUARTER 2012

| (Dollars in Millions) | External | Revenue Internal | Total | Pre-tax Income/ (Loss) | Pre-tax Margin |
|----------------------------------|-----------|---------------------|-----------|------------------------------|-------------------|
| SEGMENTS | | | | | |
| Global Technology Services | \$ 9,922 | \$ 285 | \$ 10,206 | \$ 1,697 | 16.6% |
| Y-T-Y change | -3.9% | -10.0% | -4.1% | 0.1% | |
| Global Business Services | 4,542 | 175 | 4,717 | 738 | 15.6% |
| Y-T-Y change | -6.0% | -12.0% | -6.2% | -4.8% | |
| Software | 5,763 | 843 | 6,606 | 2,355 | 35.6% |
| Y-T-Y change | -0.9% | 4.9% | -0.2% | 6.3% | |
| Systems and Technology | 3,895 | 181 | 4,076 | 124 | 3.0% |
| Y-T-Y change | -13.1 | -4.6% | -12.8% | -61.1% | |
| Global Financing | 472 | 491 | 963 | 476 | 49.4% |
| Y-T-Y change | -9.2% | 2.5% | -3.6% | -1.2% | |
| TOTAL REPORTABLE SEGMENTS | \$ 24,594 | \$ 1,976 | \$ 26,570 | \$ 5,389 | 20.3% |
| Y-T-Y change | -5.3% | -0.6% | -5.0% | -1.7% | |
| Eliminations / Other | 154 | (1,976) | (1,822) | (315) | |
| TOTAL IBM CONSOLIDATED | \$ 24,747 | \$ 0 | \$ 24,747 | \$ 5,074 | 20.5% |
| Y-T-Y change | -5.4% | | -5.4% | 0.9% | |

THIRD-QUARTER 2011

| (Dollars in Millions) | External | Revenue Internal | Total | Pre-tax Income/ (Loss) | Pre-tax Margin |
|----------------------------------|-----------|---------------------|-----------|------------------------------|-------------------|
| SEGMENTS | | | | | |
| Global Technology Services | \$ 10,322 | \$ 316 | \$ 10,638 | \$ 1,695 | 15.9% |
| Global Business Services | 4,832 | 199 | 5,031 | 775 | 15.4% |
| Software | 5,817 | 804 | 6,621 | 2,214 | 33.4% |
| Systems and Technology | 4,482 | 190 | 4,672 | 318 | 6.8% |
| Global Financing | 520 | 480 | 999 | 481 | 48.2% |
| TOTAL REPORTABLE SEGMENTS | \$ 25,974 | \$ 1,989 | \$ 27,963 | \$ 5,484 | 19.6% |
| Eliminations / Other | 182 | (1,989) | (1,806) | (457) | |

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|------------------------|----|--------|----|---|----|--------|----|-------|-------|
| TOTAL IBM CONSOLIDATED | \$ | 26,157 | \$ | 0 | \$ | 26,157 | \$ | 5,027 | 19.2% |
|------------------------|----|--------|----|---|----|--------|----|-------|-------|

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

NINE-MONTHS 2012

| (Dollars in Millions) | External | Revenue Internal | Total | Pre-tax Income/ (Loss) | Pre-tax Margin |
|----------------------------------|-----------|---------------------|-----------|------------------------------|-------------------|
| SEGMENTS | | | | | |
| Global Technology Services | \$ 29,952 | \$ 869 | \$ 30,821 | \$ 4,934 | 16.0% |
| Y-T-Y change | -1.6% | -7.9% | -1.8% | 13.3% | |
| Global Business Services | 13,846 | 538 | 14,384 | 2,142 | 14.9% |
| Y-T-Y change | -3.9% | -11.0% | -4.2% | -1.1% | |
| Software | 17,533 | 2,459 | 19,992 | 6,793 | 34.0% |
| Y-T-Y change | 1.4% | 1.4% | 1.4% | 8.5% | |
| Systems and Technology | 11,903 | 491 | 12,394 | 253 | 2.0% |
| Y-T-Y change | -9.7% | -24.8% | -10.4% | -70.0% | |
| Global Financing | 1,478 | 1,492 | 2,970 | 1,516 | 51.0% |
| Y-T-Y change | -4.9% | -2.1% | -3.5% | 1.3% | |
| TOTAL REPORTABLE SEGMENTS | \$ 74,713 | \$ 5,848 | \$ 80,561 | \$ 15,637 | 19.4% |
| Y-T-Y change | -2.8% | -4.9% | -3.0% | 3.4% | |
| Eliminations / Other | 490 | (5,848) | (5,358) | (1,566) | |
| TOTAL IBM CONSOLIDATED | \$ 75,203 | \$ 0 | \$ 75,203 | \$ 14,071 | 18.7% |
| Y-T-Y change | -2.9% | | -2.9% | 2.5% | |

NINE-MONTHS 2011

| (Dollars in Millions) | External | Revenue Internal | Total | Pre-tax Income/ (Loss) | Pre-tax Margin |
|----------------------------------|-----------|---------------------|-----------|------------------------------|-------------------|
| SEGMENTS | | | | | |
| Global Technology Services | \$ 30,427 | \$ 943 | \$ 31,370 | \$ 4,353 | 13.9% |
| Global Business Services | 14,407 | 604 | 15,012 | 2,166 | 14.4% |
| Software | 17,295 | 2,425 | 19,720 | 6,260 | 31.7% |
| Systems and Technology | 13,182 | 652 | 13,834 | 843 | 6.1% |
| Global Financing | 1,555 | 1,524 | 3,078 | 1,497 | 48.6% |
| TOTAL REPORTABLE SEGMENTS | \$ 76,866 | \$ 6,148 | \$ 83,015 | \$ 15,118 | 18.2% |
| Eliminations / Other | 563 | (6,148) | (5,585) | (1,389) | |

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| | | | | | | | | | |
|------------------------|----|--------|----|---|----|--------|----|--------|-------|
| TOTAL IBM CONSOLIDATED | \$ | 77,430 | \$ | 0 | \$ | 77,430 | \$ | 13,729 | 17.7% |
|------------------------|----|--------|----|---|----|--------|----|--------|-------|

INTERNATIONAL BUSINESS MACHINES CORPORATION

U.S. GAAP TO OPERATING RESULTS RECONCILIATION

(Unaudited; Dollars in millions except per share amounts)

| | THIRD-QUARTER 2012 | | | |
|--------------------------------|--------------------|---|---|-------------------------|
| | GAAP | Acquisition- Related Adjustments* | Retirement- Related Adjustments** | Operating (Non-GAAP) |
| Gross Profit | \$ 11,732 | \$ 95 | \$ 67 | \$ 11,894 |
| Gross Profit Margin | 47.4% | 0.4Pts | 0.3Pts | 48.1% |
| S,G&A | 5,908 | (88) | (196) | 5,625 |
| R,D&E | 1,534 | 0 | 5 | 1,539 |
| Other (Income) & Expense | (606) | (5) | 0 | (611) |
| Total Expense & Other (Income) | 6,657 | (92) | (191) | 6,374 |
| Pre-Tax Income | 5,074 | 188 | 258 | 5,520 |
| Pre-Tax Income Margin | 20.5% | 0.8Pts | 1.0Pts | 22.3% |
| Provision for Income Taxes*** | 1,251 | 47 | 67 | 1,364 |
| Effective Tax Rate | 24.6% | 0.0Pts | 0.1Pts | 24.7% |
| Net Income | 3,824 | 141 | 191 | 4,155 |
| Net Income Margin | 15.5% | 0.6Pts | 0.8Pts | 16.8% |
| Diluted Earnings Per Share | \$ 3.33 | \$ 0.12 | \$ 0.17 | \$ 3.62 |

| | THIRD-QUARTER 2011 | | | |
|--------------------------------|--------------------|---|---|-------------------------|
| | GAAP | Acquisition- Related Adjustments* | Retirement- Related Adjustments** | Operating (Non-GAAP) |
| Gross Profit | \$ 12,173 | \$ 87 | \$ (7) | \$ 12,253 |
| Gross Profit Margin | 46.5% | 0.3Pts | 0.0Pts | 46.8% |
| S,G&A | 5,662 | (75) | (0) | 5,587 |
| R,D&E | 1,546 | 0 | 22 | 1,568 |
| Other (Income) & Expense | 128 | (18) | 0 | 111 |
| Total Expense & Other (Income) | 7,146 | (92) | 21 | 7,075 |
| Pre-Tax Income | 5,027 | 180 | (29) | 5,178 |
| Pre-Tax Income Margin | 19.2% | 0.7Pts | -0.1Pts | 19.8% |

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| | | | | |
|-------------------------------|---------|---------|-----------|---------|
| Provision for Income Taxes*** | 1,188 | 47 | (11) | 1,224 |
| Effective Tax Rate | 23.6% | 0.1Pts | -0.1Pts | 23.6% |
| Net Income | 3,839 | 133 | (17) | 3,954 |
| Net Income Margin | 14.7% | 0.5Pts | -0.1Pts | 15.1% |
| Diluted Earnings Per Share | \$ 3.19 | \$ 0.11 | \$ (0.01) | \$ 3.28 |

* 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)

| | NINE-MONTHS 2012 | | | |
|-------------------------------|------------------|---|---|-------------------------|
| | GAAP | Acquisition- Related Adjustments* | Retirement- Related Adjustments** | Operating (Non-GAAP) |
| Gross Profit | \$ 35,131 | \$ 276 | \$ 204 | \$ 35,611 |
| Gross Profit Margin | 46.7% | 0.4Pts | 0.3Pts | 47.4% |
| S,G&A | 17,632 | (258) | (265) | 17,108 |
| R,D&E | 4,722 | 0 | 14 | 4,736 |
| Other (Income) & Expense | (796) | (7) | 0 | (803) |
| Total Expense & Other Income | 21,060 | (265) | (251) | 20,545 |
| Pre-Tax Income | 14,071 | 541 | 454 | 15,067 |
| Pre-Tax Income Margin | 18.7% | 0.7Pts | 0.6Pts | 20.0% |
| Provision for Income Taxes*** | 3,300 | 143 | 127 | 3,569 |
| Effective Tax Rate | 23.5% | 0.1Pts | 0.1Pts | 23.7% |
| Net Income | 10,771 | 399 | 328 | 11,498 |
| Net Income Margin | 14.3% | 0.5Pts | 0.4Pts | 15.3% |
| Diluted Earnings Per Share | \$ 9.27 | \$ 0.34 | \$ 0.28 | \$ 9.90 |

| | NINE-MONTHS 2011 | | | |
|-------------------------------|------------------|---|---|-------------------------|
| | GAAP | Acquisition- Related Adjustments* | Retirement- Related Adjustments** | Operating (Non-GAAP) |
| Gross Profit | \$ 35,416 | \$ 259 | \$ 12 | \$ 35,687 |
| Gross Profit Margin | 45.7% | 0.3Pts | 0.0Pts | 46.1% |
| S,G&A | 17,518 | (226) | (16) | 17,276 |
| R,D&E | 4,703 | 0 | 65 | 4,768 |
| Other (Income) & Expense | 23 | (23) | 0 | 1 |
| Total Expense & Other Income | 21,687 | (249) | 49 | 21,487 |
| Pre-Tax Income | 13,729 | 508 | (37) | 14,200 |
| Pre-Tax Income Margin | 17.7% | 0.7Pts | 0.0Pts | 18.3% |
| Provision for Income Taxes*** | 3,364 | 132 | (17) | 3,479 |
| Effective Tax Rate | 24.5% | 0.1Pts | -0.1Pts | 24.5% |
| Net Income | 10,365 | 376 | (20) | 10,721 |
| Net Income Margin | 13.4% | 0.5Pts | 0.0Pts | 13.8% |
| Diluted Earnings Per Share | \$ 8.48 | \$ 0.31 | \$ (0.02) | \$ 8.77 |

* 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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ATTACHMENT II

