

INTERNATIONAL BUSINESS MACHINES CORP
Form 8-K
July 18, 2011

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, 2011**

(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))
-

Item 2.02. Results of Operations and Financial Condition.

The registrant's press release dated July 18, 2011, regarding its financial results for the periods ended June 30, 2011, including consolidated financial statements for the periods ended June 30, 2011, 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, 2011, 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 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: July 18, 2011

By: /s/ James J. Kavanaugh

James J. Kavanaugh
Vice President and Controller

IBM REPORTS 2011 SECOND-QUARTER RESULTS

- **Diluted EPS:**

GAAP: \$3.00, up 15 percent;

Operating (non-GAAP): \$3.09, up 18 percent;

- **Revenue: \$26.7 billion, up 12 percent, up 5 percent adjusting for currency;**

- **Net income:**

GAAP: \$3.7 billion, up 8 percent;

Operating (non-GAAP): \$3.8 billion, up 11 percent;

- **Pre-tax income:**

GAAP: \$4.9 billion, up 7 percent;

Operating (non-GAAP): \$5.0 billion, up 10 percent;

- **Gross profit margin:**

GAAP: 46.4 percent, up 0.9 points;

Operating (non-GAAP): 46.8 percent, up 1.2 points;

- **Software revenue up 17 percent, 10 percent adjusting for currency;**

- **Systems and Technology revenue up 17 percent, 12 percent adjusting for currency;**

System z mainframe revenue up 61 percent; MIPS up 86 percent;

Power Systems up 12 percent;

- **Services revenue up 10 percent, 2 percent adjusting for currency;**
- **Services backlog of \$144 billion, up \$15 billion;**
- **Growth markets revenue up 23 percent, 13 percent adjusting for currency;**
- **Business analytics revenue up more than 20 percent in the first half;**
- **Smarter Planet revenue up more than 50 percent in the first half;**
- **Cloud revenue on track to double in 2011;**
- **Full-year 2011 Operating (non-GAAP) EPS expectations raised to at least \$13.25 from at least \$13.15.**

ARMONK, N.Y., July 18, 2011 . . . IBM (NYSE: IBM) today announced second-quarter 2011 diluted earnings of \$3.00 per share, compared with diluted earnings of \$2.61 per share in the second quarter of 2010, an increase of 15 percent. Operating (non-GAAP) diluted earnings were \$3.09 per share, compared with operating diluted earnings of \$2.62 per share in the second quarter of 2010, an increase of 18 percent.

Second-quarter net income was \$3.7 billion compared with \$3.4 billion in the second quarter of 2010, an increase of 8 percent. Operating (non-GAAP) net income was \$3.8 billion compared with \$3.4 billion in the second quarter of 2010, an increase of 11 percent.

Total revenues for the second quarter of 2011 of \$26.7 billion increased 12 percent (5 percent, adjusting for currency) from the second quarter of 2010.

In the second quarter our long-term strategic investments in the company's growth initiatives again helped drive strong revenue performance, said Samuel J. Palmisano, IBM chairman, president and chief executive officer. Hardware, software and services revenue grew at double digits, and we achieved strong profit and free cash flow growth.

As IBM begins its second century, we continue a process of transformation, positioning the company to lead in the future and deliver higher value to our clients and our shareholders. Given our strong start to 2011, we are raising our full-year operating earnings per share expectations to at least \$13.25.

Second-Quarter GAAP - Operating (non-GAAP) Reconciliation

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Second-quarter operating (non-GAAP) diluted earnings exclude \$0.09 per share of net charges: \$0.10 per share for the amortization of purchased intangible assets and other acquisition-related charges, offset by (\$0.01) per share for retirement-related items driven by changes to plan assets and liabilities primarily related to market performance.

Full-Year 2011 Expectations

IBM raised its expectations for full-year 2011 GAAP diluted earnings per share to at least \$12.87 from at least \$12.73; and operating (non-GAAP) diluted earnings per share to at least \$13.25 from at least \$13.15. The 2011 operating (non-GAAP) earnings exclude \$0.38 per share of charges for amortization of purchased intangible assets, other acquisition-related charges, and retirement-related items driven by changes to plan assets and liabilities primarily related to market performance.

Geographic Regions

The Americas' second-quarter revenues were \$11.2 billion, an increase of 10 percent (8 percent, adjusting for currency) from the 2010 period. Revenues from Europe/Middle East/Africa were \$8.6 billion, up 16 percent (3 percent, adjusting for currency). Asia-Pacific revenues increased 14 percent (3 percent, adjusting for currency) to \$6.2 billion. OEM revenues were \$674 million, flat (down 1 percent, adjusting for currency) compared with the 2010 second quarter.

Growth Markets

Revenues from the company's growth markets increased 23 percent (13 percent, adjusting for currency). Revenues in the BRIC countries—Brazil, Russia, India and China—increased 27 percent (21 percent, adjusting for currency). Growth markets revenue represents 22 percent of IBM's total geographic revenue for the second quarter.

Services

Total Global Services revenues increased 10 percent (2 percent, adjusting for currency). Global Technology Services segment revenues increased 11 percent (3 percent, adjusting for currency) to \$10.2 billion. Global Business Services segment revenues were up 9 percent (1 percent, adjusting for currency) at \$4.9 billion.

Global Services pre-tax income increased to \$2.2 billion, up 4 percent year over year. Pre-tax income from Global Technology Services increased 1 percent; pre-tax income growth was reduced by 7 points as a result of increased workforce rebalancing expenses. Global Business Services pre-tax income increased 11 percent.

The estimated services backlog at June 30 was \$144 billion, up \$15 billion year over year at actual rates (\$2 billion, adjusting for currency). Services backlog at the end of a quarter measures the current value of work under contract expected to be recognized as revenue in future quarters.

Software

Revenues from the Software segment were \$6.2 billion, an increase of 17 percent (10 percent, adjusting for currency). Software pre-tax income of \$2.3 billion was up 12 percent year over year.

Revenues from IBM's key middleware products, which include WebSphere, Information Management, Tivoli, Lotus and Rational products, were \$3.9 billion, an increase of 21 percent (14 percent, adjusting for currency) versus the second quarter of 2010. Operating systems revenues of

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\$630 million increased 16 percent (9 percent, adjusting for currency) compared with the prior-year quarter.

Revenues from the WebSphere family of software products increased 55 percent year over year. Information Management software revenues increased 18 percent. Revenues from Tivoli software increased 9 percent. Revenues from Lotus software increased 12 percent, and Rational software increased 4 percent.

Hardware

Revenues from the Systems and Technology segment totaled \$4.7 billion for the quarter, up 17 percent (12 percent, adjusting for currency) from the second quarter of 2010. Systems and Technology pre-tax income was \$393 million, an increase of 112 percent year over year.

Systems revenues increased 20 percent (13 percent, adjusting for currency). Revenues from System z mainframe server products increased 61 percent compared with the year-ago period. Total delivery of System z computing power, as measured in MIPS (millions of instructions per second), increased 86 percent. Revenues from Power Systems increased 12 percent compared with the 2010 period. Revenues from System x increased 15 percent. Revenues from System Storage increased 10 percent, and revenues from Retail Store Solutions increased 8 percent year over year. Revenues from Microelectronics OEM increased 4 percent.

Financing

Global Financing segment revenues decreased 5 percent (11 percent, adjusting for currency) in the second quarter to \$519 million. Pre-tax income for the segment increased 7 percent to \$496 million.

The company's total gross profit margin was 46.4 percent in the 2011 second quarter compared with 45.6 percent in the 2010 second-quarter period. Total operating (non-GAAP) gross profit margin was 46.8 percent in the 2011 second quarter compared with 45.6 percent in the 2010 second-quarter period, with increases in Systems and Technology, Global Business Services and Software.

Total expense and other income increased 20 percent to \$7.5 billion compared with the prior-year period. SG&A expense of \$6.0 billion increased 19 percent compared with prior-year expense. RD&E expense of \$1.6 billion increased 6 percent compared with the year-ago period. Intellectual property and custom development income decreased to \$295 million compared with \$297 million a year ago. Other (income) and expense was expense of \$97 million compared with prior-year income of \$95 million. Interest expense increased to \$97 million compared with \$90 million in the prior year.

Total operating (non-GAAP) expense and other income increased 20 percent to \$7.4 billion compared with the prior-year period. Operating (non-GAAP) SG&A expense of \$5.9 billion increased 18 percent year over year compared with prior-year expense. Operating (non-GAAP) RD&E expense of \$1.6 billion increased 6 percent compared with the year-ago period.

Pre-tax income increased 7 percent to \$4.9 billion, and pre-tax margin was 18.3 percent, down 1.0 points. Operating (non-GAAP) pre-tax income increased 10 percent to \$5.0 billion and pre-tax margin was 18.9 percent, down 0.4 points.

IBM's tax rate was 25.0 percent, down 1.0 points year over year; operating (non-GAAP) tax rate was also 25.0 percent, down 0.8 points.

Net income margin decreased 0.5 points to 13.7 percent. Operating (non-GAAP) net income margin decreased 0.2 points to 14.2 percent.

The weighted-average number of diluted common shares outstanding in the second-quarter 2011 was 1.22 billion compared with 1.30 billion shares in the same period of 2010. As of June 30, 2011, there were 1.19 billion basic common shares outstanding.

Debt, including Global Financing, totaled \$29.8 billion, compared with \$28.6 billion at year-end 2010. From a management segment view, Global Financing debt totaled \$23.4 billion versus \$22.8 billion at year-end 2010, resulting in a debt-to-equity ratio of 7.0 to 1. Non-global financing debt totaled \$6.4 billion, an increase of \$581 million since year-end 2010, resulting in a debt-to-capitalization ratio of 24.3 percent from 22.6 percent.

IBM ended the second-quarter 2011 with \$11.8 billion of cash on hand and generated free cash flow of \$3.4 billion, up approximately \$350 million year over year. The company returned \$4.9 billion to shareholders through \$0.9 billion in dividends and \$4.0 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 2011 Results

Net income for the six months ended June 30, 2011 was \$6.5 billion compared with \$6.0 billion in the year-ago period, an increase of 9 percent. Diluted earnings per share were \$5.30 compared with \$4.57 per diluted share for the 2010 period, an increase of 16 percent. Revenues for the six-month period totaled \$51.3 billion, an increase of 10 percent (5 percent, adjusting for currency) compared with \$46.6 billion for the six months of 2010.

Operating (non-GAAP) net income for the six months ended June 30, 2011 was \$6.8 billion compared with \$6.0 billion in the year-ago period, an increase of 12 percent. Operating (non-GAAP) diluted earnings per share were \$5.50 compared with \$4.61 per diluted share for the 2010 period, an increase of 19 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; breaches of data security; 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 supplementary 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 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. EDT, today. Investors may participate by viewing the Webcast at www.ibm.com/investor/2q11. 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

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(Unaudited; Dollars in millions except per share amounts)

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|--|--------------------------------|-----------------|-------------------|------------------------------|-----------------|-------------------|
| | 2011 | 2010* | Percent Change | 2011 | 2010* | Percent Change |
| REVENUE | | | | | | |
| Global Technology Services | \$ 10,241 | \$ 9,234 | 10.9% | \$ 20,104 | \$ 18,540 | 8.4% |
| Gross margin | 34.0% | 34.3% | | 33.9% | 34.3% | |
| Global Business Services | 4,866 | 4,483 | 8.5% | 9,575 | 8,893 | 7.7% |
| Gross margin | 28.9% | 28.2% | | 28.2% | 27.7% | |
| Software | 6,169 | 5,277 | 16.9% | 11,478 | 10,296 | 11.5% |
| Gross margin | 88.4% | 88.1% | | 87.8% | 86.8% | |
| Systems and Technology | 4,681 | 3,985 | 17.5% | 8,700 | 7,370 | 18.0% |
| Gross margin | 40.6% | 35.7% | | 39.3% | 34.5% | |
| Global Financing | 519 | 544 | -4.6% | 1,035 | 1,081 | -4.3% |
| Gross margin | 48.7% | 50.1% | | 51.1% | 50.0% | |
| Other | 191 | 200 | -4.8% | 381 | 400 | -4.7% |
| Gross margin | -57.7% | 16.4% | | -75.5% | -14.6% | |
| TOTAL REVENUE | 26,666 | 23,724 | 12.4% | 51,273 | 46,581 | 10.1% |
| GROSS PROFIT | | | | | | |
| Gross margin | 46.4% | 45.6% | | 45.3% | 44.6% | |
| EXPENSE AND OTHER INCOME | | | | | | |
| S,G&A | 6,030 | 5,061 | 19.2% | 11,856 | 10,737 | 10.4% |
| % of revenue | 22.6% | 21.3% | | 23.1% | 23.1% | |
| R,D&E | 1,569 | 1,475 | 6.4% | 3,156 | 2,984 | 5.8% |
| % of revenue | 5.9% | 6.2% | | 6.2% | 6.4% | |
| Intellectual property and custom development income | (295) | (297) | -0.8% | (557) | (558) | -0.3% |
| Other (income) and expense | 97 | (95) | NM | (105) | (640) | -83.6% |
| Interest expense | 97 | 90 | 8.3% | 190 | 172 | 10.6% |
| TOTAL EXPENSE AND OTHER INCOME | 7,500 | 6,234 | 20.3% | 14,541 | 12,695 | 14.5% |
| % of revenue | 28.1% | 26.3% | | 28.4% | 27.3% | |
| INCOME BEFORE INCOME TAXES | | | | | | |
| Pre-tax margin | 18.3% | 19.3% | | 17.0% | 17.4% | |
| Provision for income taxes | 1,221 | 1,190 | 2.7% | 2,175 | 2,103 | 3.4% |
| Effective tax rate | 25.0% | 26.0% | | 25.0% | 26.0% | |
| NET INCOME | \$ 3,664 | \$ 3,386 | 8.2% | \$ 6,526 | \$ 5,987 | 9.0% |
| Net margin | 13.7% | 14.3% | | 12.7% | 12.9% | |
| EARNINGS PER SHARE OF COMMON STOCK: | | | | | | |
| ASSUMING DILUTION | \$ 3.00 | \$ 2.61 | 14.9% | \$ 5.30 | \$ 4.57 | 16.0% |

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| | | | | | | | | | | |
|-------|----|------|----|------|-------|----|------|----|------|-------|
| BASIC | \$ | 3.04 | \$ | 2.65 | 14.7% | \$ | 5.38 | \$ | 4.64 | 15.9% |
|-------|----|------|----|------|-------|----|------|----|------|-------|

WEIGHTED-AVERAGE NUMBER OF
COMMON SHARES OUT-STANDING

(M s):

| | | | | |
|-------------------|---------|---------|---------|---------|
| ASSUMING DILUTION | 1,221.4 | 1,296.7 | 1,230.7 | 1,309.2 |
| BASIC | 1,204.8 | 1,278.6 | 1,213.5 | 1,289.9 |

NM Not Meaningful

* Segment gross profit margins in 2010 reclassified to conform with 2011 presentation.

INTERNATIONAL BUSINESS MACHINES CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

| (Dollars in Millions) | At June 30, 2011 | At December 31, 2010 |
|---|------------------------|----------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 11,714 | \$ 10,661 |
| Marketable securities | 50 | 990 |
| Notes and accounts receivable - trade (net of allowances of \$305 in 2011 and \$324 in 2010) | 10,539 | 10,834 |
| Short-term financing receivables (net of allowances of \$286 in 2011 and \$342 in 2010) | 14,715 | 16,257 |
| Other accounts receivable (net of allowances of \$12 in 2011 and \$10 in 2010) | 1,127 | 1,134 |
| Inventories, at lower of average cost or market: | | |
| Finished goods | 560 | 432 |
| Work in process and raw materials | 2,013 | 2,018 |
| Total inventories | 2,573 | 2,450 |
| Deferred taxes | 1,557 | 1,564 |
| Prepaid expenses and other current assets | 4,662 | 4,226 |
| Total Current Assets | 46,937 | 48,116 |
| Plant, rental machines, and other property | 41,126 | 40,289 |
| Less: Accumulated depreciation | 26,887 | 26,193 |
| Plant, rental machines, and other property - net | 14,239 | 14,096 |
| Long-term financing receivables (net of allowances of \$40 in 2011 and \$58 in 2010) | 10,422 | 10,548 |
| Prepaid pension assets | 4,855 | 3,068 |
| Deferred taxes | 2,877 | 3,220 |
| Goodwill | 25,609 | 25,136 |
| Intangible assets - net | 3,205 | 3,488 |
| Investments and sundry assets | 5,329 | 5,778 |
| Total Assets | \$ 113,474 | \$ 113,452 |
| LIABILITIES | | |
| Current Liabilities: | | |
| Taxes | \$ 2,363 | \$ 4,216 |
| Short-term debt | 7,858 | 6,778 |
| Accounts payable | 7,112 | 7,804 |
| Compensation and benefits | 4,706 | 5,028 |
| Deferred income | 12,660 | 11,580 |
| Other accrued expenses and liabilities | 5,144 | 5,156 |
| Total Current Liabilities | 39,843 | 40,562 |

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| | | |
|--|-------------------|-------------------|
| Long-term debt | 21,915 | 21,846 |
| Retirement and nonpension postretirement benefit obligations | 16,014 | 15,978 |
| Deferred income | 3,641 | 3,666 |
| Other liabilities | 8,851 | 8,226 |
| Total Liabilities | 90,263 | 90,279 |
| EQUITY | | |
| IBM Stockholders' Equity: | | |
| Common stock | 46,975 | 45,418 |
| Retained earnings | 97,334 | 92,532 |
| Treasury stock at cost | (104,073) | (96,161) |
| Accumulated other comprehensive income/(loss) | (17,109) | (18,743) |
| Total IBM stockholders' equity | 23,127 | 23,046 |
| Noncontrolling interests | 84 | 126 |
| Total Equity | 23,210 | 23,172 |
| Total Liabilities and Equity | \$ 113,474 | \$ 113,452 |

INTERNATIONAL BUSINESS MACHINES CORPORATION

CASH FLOW ANALYSIS

(Unaudited)

| (Dollars in Millions) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------|------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net Cash from Operating Activities per GAAP: | \$ 4,279 | \$ 3,766 | \$ 8,071 | \$ 8,203 |
| Less: the change in Global Financing (GF) Receivables | (33) | (218) | 1,903 | 1,883 |
| Net Cash from Operating Activities (Excluding GF Receivables) | 4,313 | 3,985 | 6,168 | 6,320 |
| Capital Expenditures, Net | (952) | (970) | (2,010) | (1,873) |
| Free Cash Flow (Excluding GF Receivables) | 3,361 | 3,015 | 4,159 | 4,446 |
| Acquisitions | (107) | (185) | (159) | (1,009) |
| Divestitures | 4 | 0 | 4 | 0 |
| Dividends | (905) | (833) | (1,700) | (1,551) |
| Share Repurchase | (3,976) | (4,104) | (8,021) | (8,121) |
| Non-GF Debt | (20) | 920 | 1,007 | 1,261 |
| Other (includes GF Receivables, GF Debt) | 162 | (548) | 4,822 | 3,241 |
| Change in Cash, Cash Equivalents and Short-term Marketable Securities | \$ (1,481) | \$ (1,736) | \$ 113 | \$ (1,732) |

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

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% |
| Y-T-Y change | 10.9% | 3.6% | 10.4% | 1.5% | |
| Global Business Services | 4,866 | 205 | 5,071 | 750 | 14.8% |
| Y-T-Y change | 8.5% | 4.3% | 8.3% | 10.7% | |
| Software | 6,169 | 792 | 6,961 | 2,310 | 33.2% |
| Y-T-Y change | 16.9% | 14.8% | 16.7% | 12.0% | |
| Systems and Technology | 4,681 | 218 | 4,899 | 393 | 8.0% |
| Y-T-Y change | 17.5% | 7.9% | 17.0% | 112.1% | |
| Global Financing | 519 | 547 | 1,066 | 496 | 46.5% |
| Y-T-Y change | 4.6% | 26.8% | 9.3% | 7.4% | |
| TOTAL REPORTABLE SEGMENTS | \$ 26,476 | \$ 2,082 | \$ 28,558 | \$ 5,370 | 18.8% |
| Y-T-Y change | 12.6% | 12.4% | 12.5% | 12.2% | |
| Eliminations / Other | 191 | (2,082) | (1,891) | (485) | |
| TOTAL IBM CONSOLIDATED | \$ 26,666 | \$ (0) | \$ 26,666 | \$ 4,885 | 18.3% |
| Y-T-Y change | 12.4% | | 12.4% | 6.8% | |

SECOND-QUARTER 2010

| (Dollars in Millions) | External | Revenue Internal | Total | Pre-tax Income/ (Loss)* | Pre-tax Margin* |
|----------------------------------|------------------|---------------------|------------------|-------------------------------|--------------------|
| SEGMENTS | | | | | |
| Global Technology Services | \$ 9,234 | \$ 332 | \$ 9,566 | \$ 1,399 | 14.6% |
| Global Business Services | 4,483 | 197 | 4,680 | 678 | 14.5% |
| Software | 5,277 | 690 | 5,967 | 2,062 | 34.5% |
| Systems and Technology | 3,985 | 202 | 4,187 | 185 | 4.4% |
| Global Financing | 544 | 431 | 975 | 462 | 47.3% |
| TOTAL REPORTABLE SEGMENTS | \$ 23,523 | \$ 1,852 | \$ 25,376 | \$ 4,786 | 18.9% |

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| | | | | | |
|------------------------|-----------|---------|-----------|----------|-------|
| Eliminations / Other | 200 | (1,852) | (1,652) | (211) | |
| TOTAL IBM CONSOLIDATED | \$ 23,724 | \$ (0) | \$ 23,724 | \$ 4,575 | 19.3% |

* Reclassified to conform with 2011 presentation.

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

| (Dollars in Millions) | SIX-MONTHS 2011 | | | | | Pre-tax Income/ (Loss) | Pre-tax Margin |
|----------------------------------|------------------|---------------------|------------------|-----------------|--|------------------------------|-------------------|
| | External | Revenue Internal | Total | | | | |
| SEGMENTS | | | | | | | |
| Global Technology Services | \$ 20,104 | \$ 627 | \$ 20,732 | \$ 2,658 | | 12.8% | |
| Y-T-Y change | 8.4% | -3.9% | 8.0% | 12.8% | | | |
| Global Business Services | 9,575 | 405 | 9,980 | 1,390 | | 13.9% | |
| Y-T-Y change | 7.7% | 1.3% | 7.4% | 23.7% | | | |
| Software | 11,478 | 1,621 | 13,099 | 4,045 | | 30.9% | |
| Y-T-Y change | 11.5% | 12.0% | 11.5% | -3.4% | | | |
| Systems and Technology | 8,700 | 462 | 9,162 | 525 | | 5.7% | |
| Y-T-Y change | 18.0% | 23.1% | 18.3% | NM | | | |
| Global Financing | 1,035 | 1,044 | 2,079 | 1,015 | | 48.8% | |
| Y-T-Y change | -4.3% | 25.1% | 8.5% | 14.2% | | | |
| TOTAL REPORTABLE SEGMENTS | \$ 50,892 | \$ 4,160 | \$ 55,052 | \$ 9,634 | | 17.5% | |
| Y-T-Y change | 10.2% | 12.1% | 10.3% | 12.7% | | | |
| Eliminations / Other | 381 | (4,160) | (3,779) | (932) | | | |
| TOTAL IBM CONSOLIDATED | \$ 51,273 | \$ (0) | \$ 51,273 | \$ 8,702 | | 17.0% | |
| Y-T-Y change | 10.1% | | 10.1% | 7.6% | | | |

 NM Not Meaningful

| (Dollars in Millions) | SIX-MONTHS 2010 | | | | | Pre-tax Income/ (Loss)* | Pre-tax Margin* |
|----------------------------|-----------------|---------------------|-----------|----------|--|-------------------------------|--------------------|
| | External | Revenue Internal | Total | | | | |
| SEGMENTS | | | | | | | |
| Global Technology Services | \$ 18,540 | \$ 652 | \$ 19,192 | \$ 2,357 | | 12.3% | |
| Global Business Services | 8,893 | 400 | 9,293 | 1,124 | | 12.1% | |
| Software | 10,296 | 1,448 | 11,743 | 4,189 | | 35.7% | |
| Systems and Technology | 7,370 | 376 | 7,746 | (12) | | -0.2% | |
| Global Financing | 1,081 | 834 | 1,916 | 889 | | 46.4% | |

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| | | | | | | | | | |
|---------------------------|----|--------|----|---------|----|---------|----|-------|-------|
| TOTAL REPORTABLE SEGMENTS | \$ | 46,181 | \$ | 3,710 | \$ | 49,891 | \$ | 8,546 | 17.1% |
| Eliminations / Other | | 400 | | (3,710) | | (3,310) | | (456) | |
| TOTAL IBM CONSOLIDATED | \$ | 46,581 | \$ | (0) | \$ | 46,581 | \$ | 8,090 | 17.4% |

* Reclassified to conform with 2011 presentation.

INTERNATIONAL BUSINESS MACHINES CORPORATION

U.S. GAAP TO OPERATING RESULTS RECONCILIATION

(Unaudited, Dollars in millions except per share amounts)

| | 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 |
| 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 |

| | SECOND-QUARTER 2010 | | | |
|--------------------------------|---------------------|---|---------------------------------------|-------------------------|
| | GAAP | Acquisition- Related Adjustments* | Retirement- Related Adjustments | Operating (Non-GAAP) |
| Gross Profit | \$ 10,809 | \$ 58 | \$ (56) | \$ 10,811 |
| Gross Profit Margin | 45.6% | 0.2Pts | -0.2Pts | 45.6% |
| S,G&A | 5,061 | (62) | 25 | 5,024 |
| R,D&E | 1,475 | 0 | 32 | 1,507 |
| Other (Income) & Expense | (95) | (3) | 0 | (97) |
| Total Expense & Other (Income) | 6,234 | (64) | 57 | 6,227 |
| Pre-Tax Income | 4,575 | 122 | (113) | 4,584 |
| Pre-Tax Income Margin | 19.3% | 0.5Pts | -0.5Pts | 19.3% |
| Provision for Income Taxes** | 1,190 | 38 | (45) | 1,183 |
| Effective Tax Rate | 26.0% | 0.1Pts | -0.4Pts | 25.8% |
| Net Income | 3,386 | 84 | (68) | 3,402 |
| Net Income Margin | 14.3% | 0.4Pts | -0.3Pts | 14.3% |
| Diluted Earnings Per Share | \$ 2.61 | \$ 0.06 | \$ (0.05) | \$ 2.62 |

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

** 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 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 |
| 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 |

| | SIX-MONTHS 2010 | | | |
|--------------------------------|-----------------|---|---------------------------------------|-------------------------|
| | GAAP | Acquisition- Related Adjustments* | Retirement- Related Adjustments | Operating (Non-GAAP) |
| Gross Profit | \$ 20,785 | \$ 113 | \$ (91) | \$ 20,807 |
| Gross Profit Margin | 44.6% | 0.2Pts | -0.2Pts | 44.7% |
| S,G&A | 10,737 | (123) | 36 | 10,650 |
| R,D&E | 2,984 | 0 | 62 | 3,046 |
| Other (Income) & Expense | (640) | (3) | 0 | (643) |
| Total Expense & Other (Income) | 12,695 | (126) | 97 | 12,667 |
| Pre-Tax Income | 8,090 | 239 | (189) | 8,140 |
| Pre-Tax Income Margin | 17.4% | 0.5Pts | -0.4Pts | 17.5% |
| Provision for Income Taxes** | 2,103 | 72 | (76) | 2,100 |
| Effective Tax Rate | 26.0% | 0.1Pts | -0.3Pts | 25.8% |
| Net Income | 5,987 | 166 | (113) | 6,040 |
| Net Income Margin | 12.9% | 0.4Pts | -0.2Pts | 13.0% |
| Diluted Earnings Per Share | \$ 4.57 | \$ 0.13 | \$ (0.09) | \$ 4.61 |

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

** 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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