

INTERNATIONAL BUSINESS MACHINES CORP
Form 8-K
January 15, 2004

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

FORM 8-K

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

Date of Report: **January 15, 2004**
(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)

Item 5. Other Events

The registrant's press release dated January 15, 2004 regarding its financial results for the periods ended December 31, 2003, including consolidated financial statements for the periods ended December 31, 2003, is Attachment I of this Form 8-K.

Attachment II of this Form 8-K is the transcript of IBM's Chief Financial Officer John R. Joyce's fourth quarter earnings presentation to securities analysts on Thursday, January 15, 2004.

Attachment III of this Form 8-K are the charts for IBM's Chief Financial Officer John R. Joyce's fourth quarter earnings presentation to securities analysts on Thursday, January 15, 2004.

Attachment IV of this Form 8-K is reconciliation information in connection with certain information in Attachment II.

All of the statements and information in Attachment I, Attachment II, Attachment III and Attachment IV of this Form 8-K are hereby filed under this Item 5 except for the following statements and information in Attachments I, II and III that are furnished pursuant to Item 12:

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ATTACHMENT I (PRESS RELEASE):

The following statement from the third paragraph of Page 3: "and \$1.1 billion associated with 2002 actions".

The following statement from the seventh paragraph of Page 3: "which included \$2.5 billion in after-tax charges associated with 2002 actions,"

ATTACHMENT II (TRANSCRIPT):

The following statements from Page 3:

"but up 18% from last year before charges taken in the 4th quarter with the acquisition of PwC Consulting".

"but up 12% year to year before the PwC Consulting charges and the 2nd-quarter actions last year".

"It was \$12.7 billion excluding Global Financing Receivables, up \$2.2 billion year-to-year."

The following statements from Page 6:

"Without those charges last year, Total Expense and Other Income grew 3%."

"Total Expense-to-revenue improved by 1.4 points".

The following statement from page 7:

"SG&A expense-to-revenue improved nearly 2 points".

The following statement from Page 8:

"So, Net Cash Provided from Operations, excluding the change in Global Financing Receivables, was \$12.7 billion, up \$2.2 billion from last year."

The following statements from Page 9:

"Let me make a subtotal here since many investors look at cash flow after Capital Expenditures."

"We generated \$8.7 billion, \$2.8 billion more than last year."

ATTACHMENT III (CHARTS):

In the Chart on Page 8 titled "IBM EXPENSE SUMMARY":

the two columns titled "Yr/Yr w/o Chgs", including all the data in such columns; and

the words "\$1.6B 2Q02 and" in the second footnote to such chart.

In the Chart on Page 9 titled "IBM CASH FLOW ANALYSIS", the row identified as "Net cash from Operations (Cont Ops), excl GF rec.", including all the data in such row.

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In the Chart on Page S1 titled "IBM FINANCIAL SUMMARY":

all the data in both columns titled "Yr/Yr w/o Chgs", except for the data in the row identified as "EPS".

the row identified as "Net Cash from Ops. (Ex. Global Fin. A/R)", including all the data in such row; and

the words "\$1.6B 2Q02 and" in the second footnote to such chart.

In the Chart on Page S5 titled "IBM CASH FLOW ANALYSIS QUARTER", the row identified as "Net cash from Operations (Cont Ops), excl GF rec.", including all the data in such row.

In the Chart on Page S7 titled "RECONCILIATION TO NET CASH FROM OPERATIONS EXCLUDING GF RECEIVABLES AND INCLUDING NET CAPITAL INVESTMENTS":

the row identified as "Net cash from Operations (Cont. Ops.), excl GF rec incl Net Capital Investments", including all the data in such row.

the row identified as "Net cash from Operations (Cont. Ops.), excl GF rec", including all the data in such row.

In the Chart on Page S8 titled "RECONCILIATION FOR COMPARATIVE TRENDS":

the column titled as "2Q02 Charges", including all the data in such column except for the number in the row identified as "Other (Income) & Expense";

the column titled as "2Q02 w/o Chgs", including all the data in such column except for the numbers in the rows identified as "Revenue", "Shares (Diluted) (M)" and "EPS"; and

the column titled as "B/(W) Yr/Yr w/o Chgs", including all the data in such column except for the numbers in the rows identified as "Revenue", "Shares (Diluted) (M)" and "EPS".

In the Chart on Page S9 titled "RECONCILIATION FOR COMPARATIVE TRENDS":

the column titled as "4Q02 w/o Chgs", including all the data in such column except for the numbers in the rows identified as "Revenue", "Shares (Diluted) (M)" and "EPS"; and

the column titled as "B/(W) Yr/Yr w/o Chgs", including all the data in such column except for the numbers in the rows identified as "Revenue", "Shares (Diluted) (M)" and "EPS".

In the Chart on Page S10 titled "RECONCILIATION FOR COMPARATIVE TRENDS":

the column titled as "FY02 Charges", including all the data in such column except for the number in the row identified as "Other (Income) & Expense";

the column titled as "FY02 w/o Chgs", including all the data in such column except for the numbers in the rows identified as "Revenue", "Shares (Diluted) (M)" and "EPS"; and

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Fourth-quarter revenue growth of 9 percent (1 percent at constant currency) was driven by growth in all geographies. In the Americas, fourth-quarter revenues from continuing operations were \$10.6 billion, up 4 percent (1 percent at constant currency) from the same period last year. Revenues from Europe/Middle East/Africa were \$9.1 billion, an increase of 17 percent (1 percent at constant currency). Asia-Pacific revenues rose 13 percent (3 percent at constant currency) to \$5.4 billion. OEM revenues decreased 14 percent (14 percent at constant currency) to \$714 million compared with 2002's fourth quarter.

Revenues grew at double digits in four of IBM's six industry sectors in the fourth quarter, led by the largest sector, Financial Services, which grew at 17 percent year over year.

Revenues from Global Services, including maintenance, increased 8 percent (down 1 percent at constant currency) to \$11.4 billion in the fourth quarter. Global Services revenues, excluding maintenance, increased 8 percent as well (down 1 percent at constant currency). IBM signed \$17.3 billion in services contracts in the fourth quarter including three contracts over \$1 billion and an additional 18 contracts in excess of \$100 million each. The estimated services backlog, including Strategic Outsourcing, Business Consulting Services, Integrated Technology Services and maintenance, was \$120 billion at December 31, 2003.

Hardware revenues from continuing operations were \$9.1 billion, an increase of 12 percent (4 percent at constant currency) from the 2002 fourth quarter. Total Systems Group revenues were

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\$4.9 billion, up 18 percent. Revenues from zSeries mainframes, benefiting from a full quarter of new technology availability on the z990 products, increased significantly as a result of strong deliveries of zSeries computing power as measured in MIPS (millions of instructions per second), which increased 62 percent versus the year-ago period. Systems Group's eServer revenues increased for xSeries Intel processor-based servers and pSeries UNIX-based servers. Revenues also were higher for iSeries midrange servers. As a result of growth in tape and DASD FASiT products, Storage Systems revenues increased year over year as well.

Personal Systems Group revenues increased 16 percent to \$3.5 billion primarily from higher revenues for personal computers, particularly mobile products, as increased volumes more than offset reductions in prices. Technology Group revenues decreased 20 percent to \$775 million, partially attributable to actions taken in 2002 to refocus and direct the microelectronics business to the high-end foundry, ASICs and standard products, while creating a new technology services business. These actions included the divestiture of multiple non-core businesses.

Revenues from software were \$4.3 billion, an increase of 12 percent (2 percent at constant currency) compared with the fourth quarter of 2002. Revenues from IBM's middleware brands, which include WebSphere, DB2, Rational, Tivoli and Lotus products, increased 14 percent to \$3.4 billion in the fourth quarter of 2003. Operating systems revenues increased 6 percent to \$683 million compared with the year-ago period.

Revenues in the fourth quarter increased 10 percent from WebSphere, software which facilitates customers' ability to manage a wide variety of business processes through the Web. Revenues for DB2 database software increased 3 percent. Revenues from Tivoli software which enables customers to centrally manage networks and storage increased 17 percent, and revenues for Lotus software, which enables customers to communicate, collaborate and learn effectively, increased 2 percent. Revenues from Rational (comprehensive software development tools) which was acquired during the first quarter of 2003 accounted for approximately 42 percent of the fourth-quarter 2003 middleware revenue increase.

Global Financing revenues decreased 12 percent (18 percent at constant currency) in the fourth quarter to \$734 million. Revenues from the Enterprise Investments/Other area, which includes industry-specific IT solutions such as product life-cycle management software, increased 5 percent (down 4 percent at constant currency) to \$360 million compared with the fourth quarter of 2002.

The company's total gross profit margin from continuing operations was 38.4 percent in the 2003 fourth quarter, compared to 38.8 percent from the same period in 2002.

Total expense and other income from continuing operations in the fourth quarter of 2003 was \$6.1 billion, 6 percent lower from the year-ago period (which included pre-tax charges of about \$575 million primarily associated with the PwCC transaction). Selling, general and administrative expense was \$4.9 billion, a decrease of 10 percent year over year (last year's expense included the charges related to PwCC), while research, development and engineering expense increased 12 percent to \$1.3 billion compared with the same period of 2002 (fourth-quarter 2003 expense includes the effect of acquisitions by the Software Group). Intellectual property and custom development income decreased 15 percent. Other (income) and expense was \$124 million of expense in the fourth quarter of 2003 versus \$116 million in the same period last year primarily from higher foreign exchange losses on hedging contracts.

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IBM's effective tax rate from continuing operations in the fourth-quarter 2003 was 30.0 percent compared with 29.5 percent in the fourth quarter of 2002.

For total operations, net income for the fourth quarter of 2003, including discontinued operations, was \$2.7 billion, or \$1.55 per diluted common share, compared with fourth-quarter 2002 net income of

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\$1.0 billion, or \$.59 per diluted share, which included \$1.0 billion in after-tax charges associated with 2002 actions, or \$.59 per diluted share for charges.

Share repurchases totaled approximately \$3.1 billion in the fourth quarter. The weighted average number of diluted common shares outstanding in the quarter was 1.75 billion compared with 1.73 billion shares in the same period of 2002.

Full-Year 2003 Results

For the year ended December 31, 2003, income from continuing operations was \$7.6 billion compared with \$5.3 billion for the same period of 2002, which included after-tax charges of \$433 million related to the acquisition of PwCC and \$1.1 billion associated with 2002 actions. Diluted earnings per common share from continuing operations was \$4.34 compared with \$3.07 after the 2002 charges of \$.88 per diluted share, an increase of 41 percent. Without these charges, diluted earnings per share from continuing operations improved 10 percent year over year. Revenues from continuing operations totaled \$89.1 billion, up 10 percent compared with 2002 revenues of \$81.2 billion.

Full-year revenue growth of 10 percent (3 percent at constant currency) was driven by growth in all geographies. In the Americas, full-year revenues were \$38.1 billion, up 5 percent (4 percent at constant currency) from the 2002 period. Revenues from Europe/Middle East/Africa were \$29.1 billion, an increase of 20 percent (3 percent at constant currency) from the 2002 period. Asia-Pacific revenues were up 13 percent (5 percent at constant currency) at \$19.3 billion. OEM revenues decreased 21 percent (22 percent at constant currency) to \$2.6 billion.

Revenues in all six of IBM's industry sectors grew for the full year, with four of the sectors growing by double digits.

Revenues from Global Services in 2003 totaled \$42.6 billion, an increase of 17 percent (9 percent at constant currency). Hardware revenues were \$28.2 billion, an increase of 3 percent (down 3 percent at constant currency). Software revenues totaled \$14.3 billion, an increase of 9 percent (2 percent at constant currency). Global Financing revenues totaled \$2.8 billion, a decrease of 13 percent (18 percent at constant currency). Revenues from the Enterprise Investments/Other area increased 5 percent (down 3 percent at constant currency) to \$1.1 billion.

For total operations, net income, including discontinued operations, was \$7.6 billion, or \$4.32 per diluted common share, compared with \$3.6 billion, or \$2.06 per diluted share, which included \$2.5 billion in after-tax charges associated with 2002 actions, or \$1.47 per diluted share for the charges.

Share repurchases totaled approximately \$4.4 billion in 2003. The weighted average number of diluted common shares outstanding in 2003 was 1.76 billion compared with 1.73 billion shares in the same period of 2002. As of December 31, 2003, there were 1.69 billion basic common shares outstanding.

Debt, including Global Financing, totaled \$23.6 billion, a decline of \$2.4 billion from year-end 2002. From a management segment view, the non-global financing debt-to-capitalization ratio was 1.5 percent at the end of 2003, and Global Financing debt declined \$564 million from year-end 2002 to a total of \$23.3 billion, resulting in a debt-to-equity ratio of 6.9 to 1.

Forward-Looking and Cautionary Statements

Except for the historical information and discussions contained herein, statements contained in this release may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, as discussed in the company's filings with the Securities and Exchange Commission (SEC).

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Presentation of Information in this Press Release

This release includes certain non-GAAP financial measures, as defined under SEC rules. The company provides a reconciliation of those measures to the most directly comparable GAAP measures and a list of the reasons why the company uses these measures, as part of the supplementary materials being presented within the fourth-quarter earnings materials. These materials are available on the IBM investor relations Web site at www.ibm.com/investor.

Conference Call and Webcast

IBM's regular quarterly earnings conference call is scheduled to begin at 8:00 a.m. EST, today. Investors may participate by viewing the Webcast at www.ibm.com/investor/4q03.

Financial Results Attached

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INTERNATIONAL BUSINESS MACHINES CORPORATION**COMPARATIVE FINANCIAL RESULTS**

(Dollars in millions except per share amounts)

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2003	2002	Percent Change	2003	2002	Percent Change
REVENUE						
Global Services	\$ 11,448	\$ 10,575	8.3%	\$ 42,635	\$ 36,360	17.3%
Gross margin	24.8%	26.3%		25.2%	26.3%	
Hardware	9,121	8,136	12.1%	28,239	27,456	2.9%
Gross margin	31.0%	31.2%		27.8%	27.1%	
Software	4,250	3,801	11.8%	14,311	13,074	9.4%
Gross margin	88.8%	87.0%		86.5%	84.4%	
Global Financing	734	829	-11.5%	2,826	3,232	-12.6%
Gross margin	52.2%	55.2%		55.8%	56.2%	
Enterprise Investments/Other	360	343	5.0%	1,120	1,064	5.2%
Gross margin	41.7%	32.9%		43.4%	42.6%	
TOTAL REVENUE	25,913	23,684	9.4%	89,131	81,186	9.8%
GROSS PROFIT	9,975	9,191	8.5%	33,018	30,284	9.0%
Gross margin	38.4%	38.8%		37.0%	37.3%	
EXPENSE AND OTHER INCOME						
S,G&A	4,874	5,440	-10.4%	17,852	18,738	-4.7%
% of revenue	18.8%	23.0%		20.0%	23.1%	
R,D&E	1,349	1,204	12.0%	5,077	4,750	6.9%
% of revenue	5.2%	5.1%		5.7%	5.9%	
Intellectual property and custom development income	(281)	(329)	-14.7%	(1,168)	(1,100)	6.1%
Other (income) and expense	124	116	7.5%	238	227	5.0%
Interest expense	31	48	-36.2%	145	145	0.0%

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	Three Months Ended December 31,			Twelve Months Ended December 31,		
TOTAL EXPENSE AND OTHER INCOME	6,097	6,479	-5.9%	22,144	22,760	-2.7%
% of revenue	23.5%	27.4%		24.8%	28.0%	
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	3,878	2,712	43.0%	10,874	7,524	44.5%
Pre-tax margin	15.0%	11.4%		12.2%	9.3%	
Provision for income taxes	1,162	801	45.0%	3,261	2,190	48.9%
Effective tax rate	30.0%	29.5%		30.0%	29.1%	
INCOME FROM CONTINUING OPERATIONS	\$ 2,716	\$ 1,911	42.2%	\$ 7,613	\$ 5,334	42.7%
Net margin	10.4%	8.1%		8.5%	6.6%	
DISCONTINUED OPERATIONS						
Loss from discontinued operations	(7)	(893)		(30)	(1,755)	
NET INCOME	\$ 2,709	\$ 1,018	166.2%	\$ 7,583	\$ 3,579	111.9%
EARNINGS/(LOSS)PER SHARE OF COMMON STOCK:						
ASSUMING DILUTION						
CONTINUING OPERATIONS	\$ 1.56	\$ 1.11	40.5%	\$ 4.34	\$ 3.07	41.4%
DISCONTINUED OPERATIONS	(0.00)	(0.52)		(0.02)	(1.01)	
TOTAL	\$ 1.55*	\$ 0.59	162.7%	\$ 4.32	\$ 2.06	109.7%
BASIC						
CONTINUING OPERATIONS	\$ 1.59	\$ 1.12	42.0%	\$ 4.42	\$ 3.13	41.2%
DISCONTINUED OPERATIONS	(0.00)	(0.53)		(0.02)	(1.03)	
TOTAL	\$ 1.59	\$ 0.60*	165.0%	\$ 4.40	\$ 2.10	109.5%
AVERAGE NUMBER OF COMMON SHARES OUT-STANDING (M's)						
ASSUMING DILUTION	1,745.7	1,728.7		1,756.1	1,730.9	
BASIC	1,708.5	1,699.1		1,721.6	1,703.2	

*

Does not total due to rounding.

INTERNATIONAL BUSINESS MACHINES CORPORATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	At December 31, 2003	At December 31, 2002	Percent Change
(Dollars in millions)			
ASSETS			
Cash, cash equivalents, and marketable securities	\$ 7,647	\$ 5,975	28.0%
Receivables net, inventories, prepaid expenses	37,232	35,677	4.4%
Plant, rental machines, and other property net	14,689	14,440	1.7%

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	At December 31, 2003	At December 31, 2002	Percent Change
Investments and other assets	44,889	40,392	11.1%
TOTAL ASSETS	\$ 104,457	\$ 96,484	8.3%
LIABILITIES AND STOCKHOLDERS' EQUITY			
Short-term debt	\$ 6,804	\$ 6,031	12.8%
Long-term debt	16,828	19,986	-15.8%
Total debt	23,632	26,017	-9.2%
Accounts payable, taxes, and accruals	31,820	28,519	11.6%
Other liabilities	21,141	19,166	10.3%
TOTAL LIABILITIES	76,593	73,702	3.9%
STOCKHOLDERS' EQUITY	27,864	22,782	22.3%
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 104,457	\$ 96,484	8.3%

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INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

FOURTH QUARTER 2003

	Revenue			Pre-tax Income (Loss) From Continuing Operations	Pre-tax Margin
	External	Internal	Total		

(Dollars in millions)

SEGMENTS						
Global Services	\$ 11,448	\$ 752	\$ 12,200	\$ 1,138		9.3%
% change	8.3%	-1.7%	7.6%	83.8%		
Systems Group	4,936	266	5,202	1,068		20.5%
% change	17.5%	100.0%	20.1%	30.1%		
Personal Systems Group	3,478	48	3,526	9		0.3%
% change	15.9%	-20.0%	15.2%	-80.9%		
Technology Group	775	207	982	(34)		-3.5%
% change	-19.5%	-9.2%	-17.5%	-181.0%		
Software	4,250	466	4,716	1,461		31.0%
% change	11.8%	22.3%	12.8%	13.8%		
Global Financing	732	432	1,164	321		27.6%
% change	-11.6%	34.2%	1.2%	15.5%		
Enterprise Investments	340	1	341	(44)		-12.9%
% change	3.7%	0.0%	3.6%	50.6%		

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FOURTH QUARTER 2003

TOTAL SEGMENTS	25,959	2,172	28,131	3,919	13.9%
% change	9.5%	14.9%	9.9%	30.5%	
Eliminations/Other	(46)	(2,172)	(2,218)	(41)	
TOTAL IBM	\$ 25,913	\$ 0	\$ 25,913	\$ 3,878	15.0%
% change	9.4%		9.4%	43.0%	

FOURTH QUARTER 2002

Revenue			Pre-tax Income (Loss) From Continuing Operations	Pre-tax Margin
External	Internal	Total		

(Dollars in millions)

SEGMENTS	External	Internal	Total	Pre-tax Income (Loss) From Continuing Operations	Pre-tax Margin
Global Services	\$ 10,575	\$ 765	\$ 11,340	\$ 619	5.5%
Systems Group	4,200	133	4,333	821	18.9%
Personal Systems Group	3,002	60	3,062	47	1.5%
Technology Group	963	228	1,191	42	3.5%
Software	3,801	381	4,182	1,284	30.7%
Global Financing	828	322	1,150	278	24.2%
Enterprise Investments	328	1	329	(89)	-27.1%
TOTAL SEGMENTS	23,697	1,890	25,587	3,002	11.7%
Eliminations/Other	(13)	(1,890)	(1,903)	(290)	
TOTAL IBM	\$ 23,684	\$ 0	\$ 23,684	\$ 2,712	11.4%

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INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

TWELVE MONTHS 2003

Revenue	Pre-tax Income (Loss) From Continuing Operations
	&nb