

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%
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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%
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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

