

INTERNATIONAL BUSINESS MACHINES CORP
Form 8-K
January 19, 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: **January 19, 2012**

(Date of earliest event reported)

INTERNATIONAL BUSINESS MACHINES
CORPORATION

(Exact name of registrant as specified in its charter)

New York
(State of Incorporation)

1-2360
(Commission File Number)

13-0871985
(IRS employer Identification No.)

ARMONK, NEW YORK
(Address of principal executive offices)

10504
(Zip Code)

914-499-1900

(Registrant's telephone number)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

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

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

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

 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operations and Financial Condition.

The registrant's press release dated January 19, 2012, regarding its financial results for the periods ended December 31, 2011, including consolidated financial statements for the periods ended December 31, 2011, is Attachment I of this Form 8-K. Attachment II are the slides for IBM's Chief Financial Officer Mark Loughridge's fourth quarter earnings presentation on January 19, 2012, 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: January 19, 2012

By: */s/ James J. Kavanaugh*

James J. Kavanaugh
Vice President and Controller

IBM REPORTS 2011 FOURTH-QUARTER AND FULL-YEAR RESULTS

Fourth-Quarter 2011:

- Diluted EPS:

GAAP: \$4.62, up 11 percent;

Operating (non-GAAP): \$4.71, up 11 percent;

- Net income:

GAAP: \$5.5 billion, up 4 percent;

Operating (non-GAAP): \$5.6 billion, up 5 percent;

- Gross profit margin:

GAAP: 49.9 percent, up 0.9 points;

Operating (non-GAAP): 50.2 percent, up 1.1 points;

- Revenue of \$29.5 billion, up 2 percent as reported, 1 percent adjusting for currency;

- Software revenue up 9 percent;

- Global Technology Services revenue up 3 percent;

- Global Business Services revenue up 3 percent, 2 percent adjusting for currency;

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- Services backlog of \$141 billion, up \$4 billion as reported, up \$5 billion adjusting for currency, quarter to quarter;
- Systems and Technology revenue down 8 percent.

Full-Year 2011:

- Diluted EPS, up double-digits for 9th consecutive year;

GAAP: \$13.06, up 13 percent;

Operating (non-GAAP): \$13.44, up 15 percent;

- Net income:

GAAP: \$15.9 billion, up 7 percent;

Operating (non-GAAP): \$16.3 billion, up 9 percent;

- Revenue of \$106.9 billion, up 7 percent, up 3 percent adjusting for currency;
- Free cash flow of \$16.6 billion, up \$300 million;
- Growth markets revenue up 16 percent, up 11 percent adjusting for currency;
- Business analytics revenue up 16 percent;
- Smarter Planet revenue up 47 percent;
- Cloud revenue more than tripled 2010 revenue.

Full-Year 2012 Expectation:

- GAAP EPS of at least \$14.16 and operating (non-GAAP) EPS of at least \$14.85.

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ARMONK, N.Y., January 19, 2012 . . . IBM (NYSE: IBM) today announced fourth-quarter 2011 diluted earnings of \$4.62 per share, compared with diluted earnings of \$4.18 per share in the fourth quarter of 2010, an increase of 11 percent. Operating (non-GAAP) diluted earnings were \$4.71 per share, compared with operating diluted earnings of \$4.25 per share in the fourth quarter of 2010, an increase of 11 percent.

Fourth-quarter net income was \$5.5 billion compared with \$5.3 billion in the fourth quarter of 2010, an increase of 4 percent. Operating (non-GAAP) net income was \$5.6 billion compared with \$5.4 billion in the fourth quarter of 2010, an increase of 5 percent.

Total revenues for the fourth quarter of 2011 of \$29.5 billion increased 2 percent (1 percent, adjusting for currency) from the fourth quarter of 2010. While currency provided a benefit to revenue growth of approximately 25 basis points in the quarter, currency movements since the company announced its third-quarter earnings in October impacted fourth-quarter revenue by approximately one point of growth, or \$300 million.

We had a strong fourth-quarter performance, capping a year of record earnings per share, revenue, profit and free cash flow, said Ginni Rometty, IBM president and

chief executive officer. We delivered outstanding results in all four of our strategic initiatives for the quarter and the year, as we continued to realize the benefit of our long-term investments in growth markets, business analytics, Smarter Planet solutions and cloud. We are well on track toward our long-term roadmap for operating earnings per share of at least \$20 in 2015.

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

Fourth-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 2012 Expectation

IBM said that it expects to deliver full-year 2012 GAAP earnings per share of at least \$14.16; and operating (non-GAAP) earnings per share of at least \$14.85. The 2012 operating (non-GAAP) earnings exclude \$0.69 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 fourth-quarter revenues were \$12.5 billion, an increase of 3 percent (3 percent, adjusting for currency) from the 2010 period. Revenues from Europe/Middle East/Africa were \$9.6 billion, up 1 percent (1 percent, adjusting for currency). Asia-Pacific revenues increased 2 percent (down 1 percent, adjusting for currency) to \$6.7 billion. OEM revenues were \$714 million, down 9 percent compared with the 2010 fourth quarter.

Growth Markets

Revenues from the company's growth markets increased 7 percent (8 percent, adjusting for currency). Revenues in the BRIC countries – Brazil, Russia, India and China – increased 10 percent (11 percent, adjusting for currency).

Services

Global Technology Services segment revenues increased 3 percent (3 percent, adjusting for currency) to \$10.5 billion. Global Business Services segment revenues were up 3 percent (2 percent, adjusting for currency) at \$4.9 billion.

Pre-tax income from Global Technology Services increased 18 percent; pre-tax margin increased to 18.0 percent. Global Business Services pre-tax income increased 14 percent; pre-tax margin increased to 16.6 percent.

The estimated services backlog at December 31 was \$141 billion, up \$4 billion as reported (\$5 billion, adjusting for currency), quarter to quarter, and down \$2 billion as reported (flat, adjusting for currency), year over year. 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 \$7.6 billion, an increase of 9 percent (9 percent, adjusting for currency). Software pre-tax income of \$3.7 billion increased 12 percent year over year.

Revenues from IBM's key middleware products, which include WebSphere, Information Management, Tivoli, Lotus and Rational products, were \$5.2 billion, an increase of 11 percent (11 percent, adjusting for currency) versus the fourth quarter of 2010. Operating systems revenues of \$710 million increased 3 percent (3 percent, adjusting for currency) compared with the prior-year quarter.

Revenues from the WebSphere family of software products increased 21 percent year over year. Information Management software revenues increased 9 percent. Revenues from Tivoli software increased 14 percent. Revenues from Lotus software decreased 2 percent, and Rational software increased 4 percent.

Hardware

Revenues from the Systems and Technology segment totaled \$5.8 billion for the quarter, down 8 percent (8 percent, adjusting for currency) from the fourth quarter of 2010. Systems and Technology pre-tax income was \$790 million, a decrease of 33 percent.

Total systems revenues decreased 7 percent (7 percent, adjusting for currency). Revenues from Power Systems increased 6 percent compared with the 2010 period. Revenues from System z mainframe server products decreased 31 percent compared with the year-ago period which was the first full quarter after a new product introduction. Total delivery of System z computing power, as measured in MIPS (millions of instructions per second), decreased 4 percent. Revenues from System x decreased 2 percent. Revenues from System Storage decreased 1 percent, and revenues from Retail Store Solutions increased 9 percent year over year. Revenues from Microelectronics OEM decreased 11 percent.

Financing

Global Financing segment revenues decreased 13 percent (13 percent, adjusting for currency) in the fourth quarter to \$548 million. Pre-tax income for the segment decreased 9 percent to \$514 million.

The company's total gross profit margin was 49.9 percent in the 2011 fourth quarter compared with 49.0 percent in the 2010 fourth-quarter period. Total operating (non-GAAP) gross profit margin was 50.2 percent in the 2011 fourth quarter compared with 49.1 percent in the 2010 fourth-quarter period, with increases in Services and Software.

Total expense and other income increased 2 percent to \$7.4 billion compared with the prior-year period. S,G&A expense of \$6.1 billion increased 2 percent year over year compared with prior-year expense. R,D&E expense of \$1.6 billion decreased 1 percent compared with the year-ago period. Intellectual property and custom development income decreased to \$253 million compared with \$318 million a year ago. Other (income) and expense was income of \$44 million compared with prior-year income of \$42 million. Interest expense increased to \$113 million compared with \$102 million in the prior year.

Total operating (non-GAAP) expense and other income increased 2 percent to \$7.4 billion compared with the prior-year period. Operating (non-GAAP) S,G&A expense of \$6.0 billion increased 2 percent year over year compared with prior-year expense. Operating (non-GAAP) R,D&E expense of \$1.6 billion decreased 2 percent compared with the year-ago period.

Pre-tax income increased 5 percent to \$7.3 billion; total operating (non-GAAP) pre-tax income increased 6 percent to \$7.4 billion. Pre-tax margin was 24.7 percent, up 0.7 points; total operating (non-GAAP) pre-tax margin was 25.1 percent, up 0.9 points.

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IBM's tax rate was 24.5 percent, up 0.1 points year over year; total operating (non-GAAP) tax rate was 24.4 percent, up 0.7 points.

Net income margin increased 0.5 points to 18.6 percent; total operating (non-GAAP) net income margin was 19.0 percent, an increase of 0.5 points.

The weighted-average number of diluted common shares outstanding in the fourth-quarter 2011 was 1.19 billion compared with 1.26 billion shares in the same period of 2010.

In the quarter, IBM generated free cash flow of \$9.0 billion excluding Global Financing receivables, up approximately \$300 million year over year.

Full-Year 2011 Results

Net income for the year ended December 31, 2011 was \$15.9 billion compared with \$14.8 billion in the year-ago period, an increase of 7 percent. Operating (non-GAAP) net income was \$16.3 billion compared with \$15.0 billion in 2010, an increase of 9 percent.

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Diluted earnings were \$13.06 per share compared with \$11.52 per diluted share in 2010, an increase of 13 percent. Operating (non-GAAP) diluted earnings were \$13.44 per share, compared with operating diluted earnings of \$11.67 per share in 2010, an increase of 15 percent. This was the company's 9th consecutive year of double-digit EPS growth.

Revenues for 2011 totaled \$106.9 billion, an increase of 7 percent (3 percent, adjusting for currency), compared with \$99.9 billion in 2010.

GAAP - Operating (non-GAAP) Reconciliation

Operating (non-GAAP) diluted earnings for the year exclude \$0.38 per share of net charges: \$0.41 per share for the amortization of purchased intangible assets and other acquisition-related charges, offset by (\$0.03) per share for retirement-related items driven by changes to plan assets and liabilities primarily related to market performance.

Geographic Regions

From a geographic perspective, the Americas' full-year revenues were \$44.9 billion, an increase of 7 percent (6 percent, adjusting for currency) from the 2010 period. Revenues from Europe/Middle East/Africa were \$34.0 billion, an increase of 7 percent (2 percent, adjusting for currency). Asia-Pacific revenues increased 9 percent (2 percent, adjusting for currency) to \$25.3 billion. OEM revenues were \$2.7 billion, down 2 percent (3 percent, adjusting for currency) compared with 2010.

Growth Markets

Revenues from the company's growth markets increased 16 percent (11 percent, adjusting for currency), and represents 22 percent of IBM's total geographic revenue. Revenues in the BRIC countries—Brazil, Russia, India and China—increased 19 percent (16 percent, adjusting for currency).

Segments

Total Global Services revenues increased 7 percent (2 percent, adjusting for currency). Revenues from the Global Technology Services segment totaled \$40.9 billion, an increase of 7 percent (3 percent, adjusting for currency) compared with 2010. Revenues from the Global Business Services segment were \$19.3 billion, up 6 percent (1 percent, adjusting for currency). Software segment revenues in 2011 totaled \$24.9 billion, an increase of 11 percent (8 percent, adjusting for currency). Systems and Technology segment revenues were \$19.0 billion, an increase of 6 percent (3 percent, adjusting for currency). Global Financing segment revenues totaled \$2.1 billion, a decrease of 6 percent (9 percent, adjusting for currency).

The company's total gross profit margin was 46.9 percent in 2011 compared with 46.1 percent in 2010. Overall gross profit margins improved year over year for the 8th consecutive year. Total operating (non-GAAP) gross profit margin was 47.2 percent in the 2011 period compared with 46.1 percent in the 2010 period, with increases in Services, Software, and Systems and Technology.

The weighted-average number of diluted common shares outstanding in 2011 was 1.21 billion compared with 1.29 billion shares in 2010. As of December 31, 2011, there were 1.16 billion basic common shares outstanding.

Debt, including Global Financing, totaled \$31.3 billion, compared with \$28.6 billion at year-end 2010. From a management segment view, Global Financing debt totaled \$23.3 billion versus \$22.8 billion at year-end 2010, resulting in a debt-to-equity ratio of 7.2 to 1. Non-global financing debt totaled \$8.0 billion, an increase of \$2.2 billion since year-end 2010, resulting in a debt-to-capitalization ratio of 32.0 percent from 22.6 percent.

IBM ended 2011 with \$11.9 billion of cash on hand and generated free cash flow of \$16.6 billion excluding Global Financing receivables, up approximately \$300 million year over year. The company returned \$18.5 billion to shareholders through \$3.5 billion in dividends and \$15.0 billion of share repurchases. The balance

sheet remains strong, and the company is well positioned to support the business over the long term.

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 fourth-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. EST, today. Investors may participate by viewing the Webcast at www.ibm.com/investor/4q11. 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

(Dollars in millions except per share amounts)

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|--|------------------------------------|---------------|-------------------|-------------------------------------|---------------|-------------------|
| | 2011 | 2010* | Percent Change | 2011 | 2010* | Percent Change |
| REVENUE | | | | | | |
| Global Technology Services | \$ 10,452 | \$ 10,165 | 2.8% | \$ 40,879 | \$ 38,201 | 7.0% |
| Gross margin | 36.6% | 34.5% | | 35.0% | 34.5% | |
| Global Business Services | 4,877 | 4,758 | 2.5% | 19,284 | 18,223 | 5.8% |
| Gross margin | 29.3% | 28.0% | | 28.8% | 28.0% | |
| Software | 7,648 | 7,039 | 8.7% | 24,944 | 22,485 | 10.9% |
| Gross margin | 89.8% | 89.6% | | 88.5% | 87.9% | |
| Systems and Technology | 5,803 | 6,277 | -7.6% | 18,985 | 17,973 | 5.6% |
| Gross margin | 40.5% | 43.6% | | 39.8% | 38.1% | |
| Global Financing | 548 | 628 | -12.9% | 2,102 | 2,238 | -6.1% |
| Gross margin | 49.7% | 51.8% | | 49.8% | 51.3% | |
| Other | 159 | 151 | 4.7% | 722 | 750 | -3.8% |
| Gross margin | -11.0% | 10.3% | | -54.5% | -8.6% | |
| TOTAL REVENUE | 29,486 | 29,019 | 1.6% | 106,916 | 99,870 | 7.1% |
| GROSS PROFIT | | | | | | |
| Gross margin | 49.9% | 49.0% | 3.5% | 46.9% | 46.1% | 9.0% |
| EXPENSE AND OTHER INCOME | | | | | | |
| S,G&A | 6,076 | 5,951 | 2.1% | 23,594 | 21,837 | 8.0% |
| % of revenue | 20.6% | 20.5% | | 22.1% | 21.9% | |
| R,D&E | 1,555 | 1,578 | -1.5% | 6,258 | 6,026 | 3.8% |
| % of revenue | 5.3% | 5.4% | | 5.9% | 6.0% | |
| Intellectual property and custom development income | (253) | (318) | -20.4% | (1,108) | (1,154) | -4.0% |
| Other (income) and expense | (44) | (42) | 4.9% | (20) | (787) | -97.4% |
| Interest expense | 113 | 102 | 11.6% | 411 | 368 | 11.6% |
| TOTAL EXPENSE AND OTHER INCOME | 7,448 | 7,271 | 2.4% | 29,135 | 26,291 | 10.8% |
| % of revenue | 25.3% | 25.1% | | 27.3% | 26.3% | |
| INCOME BEFORE INCOME TAXES | | | | | | |
| Pre-tax margin | 24.7% | 24.0% | 4.6% | 19.6% | 19.7% | 6.5% |
| Provision for income taxes | 1,784 | 1,698 | 5.1% | 5,148 | 4,890 | 5.3% |

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| | | | | | | | | | | |
|---|----|---------|-------|---------|-------|---------|--------|---------|--------|-------|
| Effective tax rate | | 24.5% | 24.4% | | 24.5% | | 24.8% | | | |
| NET INCOME | \$ | 5,490 | \$ | 5,257 | 4.4% | \$ | 15,855 | \$ | 14,833 | 6.9% |
| Net margin | | 18.6% | | 18.1% | | 14.8% | | 14.9% | | |
| EARNINGS PER SHARE OF COMMON STOCK: | | | | | | | | | | |
| ASSUMING DILUTION | \$ | 4.62 | \$ | 4.18 | 10.5% | \$ | 13.06 | \$ | 11.52 | 13.4% |
| BASIC | \$ | 4.68 | \$ | 4.24 | 10.4% | \$ | 13.25 | \$ | 11.69 | 13.3% |
| WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (M s): | | | | | | | | | | |
| ASSUMING DILUTION | | 1,188.7 | | 1,258.4 | | 1,213.8 | | 1,287.4 | | |
| BASIC | | 1,172.2 | | 1,240.1 | | 1,197.0 | | 1,268.8 | | |

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

INTERNATIONAL BUSINESS MACHINES CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| (Dollars in Millions) | At December 31, 2011 | At December 31, 2010 |
|---|----------------------------|----------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 11,922 | \$ 10,661 |
| Marketable securities | | 990 |
| Notes and accounts receivable - trade (net of allowances of \$256 in 2011 and \$324 in 2010) | 11,179 | 10,834 |
| Short-term financing receivables (net of allowances of \$311 in 2011 and \$342 in 2010) | 16,901 | 16,257 |
| Other accounts receivable (net of allowances of \$11 in 2011 and \$10 in 2010) | 1,481 | 1,134 |
| Inventories, at lower of average cost or market: | | |
| Finished goods | 589 | 432 |
| Work in process and raw materials | 2,007 | 2,018 |
| Total inventories | 2,595 | 2,450 |
| Deferred taxes | 1,601 | 1,564 |
| Prepaid expenses and other current assets | 5,249 | 4,226 |
| Total Current Assets | 50,928 | 48,116 |
| Property, plant and equipment | 40,124 | 40,289 |
| Less: Accumulated depreciation | 26,241 | 26,193 |
| Property, plant and equipment - net | 13,883 | 14,096 |
| Long-term financing receivables (net of allowances of \$38 in 2011 and \$58 in 2010) | 10,776 | 10,548 |
| Prepaid pension assets | 2,843 | 3,068 |
| Deferred taxes | 3,503 | 3,220 |
| Goodwill | 26,213 | 25,136 |
| Intangible assets - net | 3,392 | 3,488 |
| Investments and sundry assets | 4,895 | 5,778 |
| Total Assets | \$ 116,433 | \$ 113,452 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities: | | |
| Taxes | \$ 3,313 | \$ 4,216 |
| Short-term debt | 8,463 | 6,778 |
| Accounts payable | 8,517 | 7,804 |
| Compensation and benefits | 5,099 | 5,028 |
| Deferred income | 12,197 | 11,580 |
| Other accrued expenses and liabilities | 4,535 | 5,156 |
| Total Current Liabilities | 42,123 | 40,562 |
| Long-term debt | 22,857 | 21,846 |
| Retirement and nonpension postretirement benefit obligations | 18,374 | 15,978 |
| Deferred income | 3,847 | 3,666 |

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| | | |
|---|------------|------------|
| Other liabilities | 8,996 | 8,226 |
| Total Liabilities | 96,197 | 90,279 |
| Contingencies and commitments | | |
| EQUITY | | |
| IBM Stockholders' Equity: | | |
| Common stock | 48,129 | 45,418 |
| Retained earnings | 104,857 | 92,532 |
| Treasury stock at cost | (110,963) | (96,161) |
| Accumulated other comprehensive income/(loss) | (21,885) | (18,743) |
| Total IBM stockholders' equity | 20,138 | 23,046 |
| Noncontrolling interests | 97 | 126 |
| Total Equity | 20,236 | 23,172 |
| Total Liabilities and Equity | \$ 116,433 | \$ 113,452 |

INTERNATIONAL BUSINESS MACHINES CORPORATION

CASH FLOW ANALYSIS

| (Dollars in Millions) | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|--|---------------------------------------|----------|--|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net Cash from Operating Activities per GAAP: | \$ 7,097 | \$ 6,795 | \$ 19,846 | \$ 19,549 |
| Less: the change in Global Financing (GF) Receivables | (2,927) | (2,991) | (817) | (734) |
| Net Cash from Operating Activities (Excluding GF Receivables) | 10,024 | 9,786 | 20,663 | 20,283 |
| Capital Expenditures, Net | (1,059) | (1,103) | (4,059) | (3,984) |
| Free Cash Flow (Excluding GF Receivables) | 8,965 | 8,683 | 16,604 | 16,299 |
| Acquisitions | (1,588) | (2,928) | (1,811) | (5,922) |
| Divestitures | 10 | 55 | 14 | 55 |
| Dividends | (880) | (808) | (3,473) | (3,177) |
| Share Repurchase | (3,581) | (3,601) | (15,046) | (15,375) |
| Non-GF Debt | 599 | 745 | 1,692 | 2,279 |
| Other (includes GF Receivables, and GF Debt) | (2,906) | (1,582) | 2,291 | 3,518 |
| Change in Cash, Cash Equivalents and Short-term Marketable Securities | \$ 619 | \$ 564 | \$ 271 | \$ (2,322) |

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

| (Dollars in Millions) | FOURTH-QUARTER 2011 | | | | |
|----------------------------------|---------------------|---------------------|------------------|-------------------|-------------------|
| | External | Revenue Internal | Total | Pre-tax Income | Pre-tax Margin |
| SEGMENTS | | | | | |
| Global Technology Services | \$ 10,452 | \$ 299 | \$ 10,751 | \$ 1,930 | 18.0% |
| Y-T-Y change | 2.8% | 0.2% | 2.7% | 18.0% | |
| Global Business Services | 4,877 | 193 | 5,069 | 841 | 16.6% |
| Y-T-Y change | 2.5% | -3.4% | 2.3% | 14.4% | |
| Software | 7,648 | 851 | 8,499 | 3,710 | 43.7% |
| Y-T-Y change | 8.7% | 9.9% | 8.8% | 12.5% | |
| Systems and Technology | 5,803 | 186 | 5,989 | 790 | 13.2% |
| Y-T-Y change | -7.6% | -19.8% | -8.0% | -32.6% | |
| Global Financing | 548 | 569 | 1,116 | 514 | 46.1% |
| Y-T-Y change | -12.9% | -1.1% | -7.2% | -9.1% | |
| TOTAL REPORTABLE SEGMENTS | \$ 29,328 | \$ 2,098 | \$ 31,425 | \$ 7,786 | 24.8% |
| Y-T-Y change | 1.6% | 0.9% | 1.5% | 5.1% | |
| Eliminations / Other | 159 | (2,098) | (1,939) | (512) | |
| TOTAL IBM CONSOLIDATED | \$ 29,486 | \$ 0 | \$ 29,486 | \$ 7,274 | 24.7% |
| Y-T-Y change | 1.6% | | 1.6% | 4.6% | |

| (Dollars in Millions) | FOURTH-QUARTER 2010 | | | | |
|----------------------------------|---------------------|---------------------|------------------|--------------------|--------------------|
| | External | Revenue Internal | Total | Pre-tax Income* | Pre-tax Margin* |
| SEGMENTS | | | | | |
| Global Technology Services | \$ 10,165 | \$ 299 | \$ 10,464 | \$ 1,635 | 15.6% |
| Global Business Services | 4,758 | 199 | 4,957 | 735 | 14.8% |
| Software | 7,039 | 774 | 7,813 | 3,299 | 42.2% |
| Systems and Technology | 6,277 | 232 | 6,509 | 1,173 | 18.0% |
| Global Financing | 628 | 575 | 1,203 | 566 | 47.0% |
| TOTAL REPORTABLE SEGMENTS | \$ 28,867 | \$ 2,079 | \$ 30,947 | \$ 7,408 | 23.9% |
| Eliminations / Other | 151 | (2,079) | (1,928) | (452) | |
| TOTAL IBM CONSOLIDATED | \$ 29,019 | \$ 0 | \$ 29,019 | \$ 6,956 | 24.0% |

* Reclassified to conform with 2011 presentation.

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

| (Dollars in Millions) | TWELVE-MONTHS 2011 | | | | |
|----------------------------------|--------------------|---------------------|-------------------|-------------------|-------------------|
| | External | Revenue Internal | Total | Pre-tax Income | Pre-tax Margin |
| SEGMENTS | | | | | |
| Global Technology Services | \$ 40,879 | \$ 1,242 | \$ 42,121 | \$ 6,284 | 14.9% |
| Y-T-Y change | 7.0% | -5.3% | 6.6% | 14.3% | |
| Global Business Services | 19,284 | 797 | 20,081 | 3,006 | 15.0% |
| Y-T-Y change | 5.8% | -0.2% | 5.6% | 18.1% | |
| Software | 24,944 | 3,276 | 28,219 | 9,970 | 35.3% |
| Y-T-Y change | 10.9% | 11.0% | 10.9% | 5.3% | |
| Systems and Technology | 18,985 | 838 | 19,823 | 1,633 | 8.2% |
| Y-T-Y change | 5.6% | 4.3% | 5.6% | 12.2% | |
| Global Financing | 2,102 | 2,092 | 4,195 | 2,011 | 47.9% |
| Y-T-Y change | -6.1% | 13.6% | 2.8% | 2.8% | |
| TOTAL REPORTABLE SEGMENTS | \$ 106,194 | \$ 8,246 | \$ 114,440 | \$ 22,904 | 20.0% |
| Y-T-Y change | 7.1% | 7.0% | 7.1% | 9.5% | |
| Eliminations / Other | 722 | (8,246) | (7,524) | (1,901) | |
| TOTAL IBM CONSOLIDATED | \$ 106,916 | \$ 0 | \$ 106,916 | \$ 21,003 | 19.6% |
| Y-T-Y change | 7.1% | | 7.1% | 6.5% | |

| (Dollars in Millions) | TWELVE-MONTHS 2010 | | | | |
|----------------------------------|--------------------|---------------------|-------------------|--------------------|--------------------|
| | External | Revenue Internal | Total | Pre-tax Income* | Pre-tax Margin* |
| SEGMENTS | | | | | |
| Global Technology Services | \$ 38,201 | \$ 1,313 | \$ 39,514 | \$ 5,499 | 13.9% |
| Global Business Services | 18,223 | 798 | 19,021 | 2,546 | 13.4% |
| Software | 22,485 | 2,950 | 25,436 | 9,466 | 37.2% |
| Systems and Technology | 17,973 | 804 | 18,777 | 1,456 | 7.8% |
| Global Financing | 2,238 | 1,842 | 4,080 | 1,956 | 48.0% |
| TOTAL REPORTABLE SEGMENTS | \$ 99,120 | \$ 7,707 | \$ 106,827 | \$ 20,923 | 19.6% |
| Eliminations / Other | 750 | (7,707) | (6,956) | (1,200) | |
| TOTAL IBM CONSOLIDATED | \$ 99,870 | \$ 0 | \$ 99,870 | \$ 19,723 | 19.7% |

* Reclassified to conform with 2011 presentation.

INTERNATIONAL BUSINESS MACHINES CORPORATION

U.S. GAAP TO OPERATING RESULTS RECONCILIATION

(Dollars in millions except per share amounts)

| | FOURTH-QUARTER 2011 | | | |
|--------------------------------|---------------------|---|---|-------------------------|
| | GAAP | Acquisition- Related Adjustments* | Retirement- Related Adjustments** | Operating (Non-GAAP) |
| Gross Profit | \$ 14,722 | \$ 81 | \$ (10) | \$ 14,793 |
| Gross Profit Margin | 49.9% | 0.3Pts | -0.0Pts | 50.2% |
| S,G&A | 6,076 | (82) | 2 | 5,996 |
| R,D&E | 1,555 | 0 | 23 | 1,578 |
| Other (Income) & Expense | (44) | (2) | 0 | (46) |
| Total Expense & Other (Income) | 7,448 | (85) | 25 | 7,388 |
| Pre-Tax Income | 7,274 | 166 | (35) | 7,405 |
| Pre-Tax Income Margin | 24.7% | 0.6Pts | -0.1Pts | 25.1% |
| Provision for Income Taxes*** | 1,784 | 47 | (24) | 1,808 |
| Effective Tax Rate | 24.5% | 0.1Pts | -0.2Pts | 24.4% |
| Net Income | 5,490 | 119 | (12) | 5,597 |
| Net Income Margin | 18.6% | 0.4Pts | -0.0Pts | 19.0% |
| Diluted Earnings Per Share | \$ 4.62 | \$ 0.10 | \$ (0.01) | \$ 4.71 |

| | FOURTH-QUARTER 2010 | | | |
|--------------------------------|---------------------|---|---|-------------------------|
| | GAAP | Acquisition- Related Adjustments* | Retirement- Related Adjustments** | Operating (Non-GAAP) |
| Gross Profit | \$ 14,227 | \$ 82 | \$ (60) | \$ 14,249 |
| Gross Profit Margin | 49.0% | 0.3Pts | -0.2Pts | 49.1% |
| S,G&A | 5,951 | (95) | 28 | 5,884 |
| R,D&E | 1,578 | 0 | 33 | 1,611 |
| Other (Income) & Expense | (42) | (2) | 0 | (44) |
| Total Expense & Other (Income) | 7,271 | (98) | 61 | 7,235 |
| Pre-Tax Income | 6,956 | 180 | (121) | 7,015 |

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| | | | | |
|-------------------------------|---------|---------|-----------|---------|
| Pre-Tax Income Margin | 24.0% | 0.6Pts | -0.4Pts | 24.2% |
| Provision for Income Taxes*** | 1,698 | 10 | (47) | 1,661 |
| Effective Tax Rate | 24.4% | -0.5Pts | -0.3Pts | 23.7% |
| Net Income | 5,257 | 170 | (74) | 5,354 |
| Net Income Margin | 18.1% | 0.6Pts | -0.3Pts | 18.5% |
| Diluted Earnings Per Share | \$ 4.18 | \$ 0.14 | \$ (0.06) | \$ 4.25 |

* 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

(Dollars in millions except per share amounts)

| | TWELVE-MONTHS 2011 | | | |
|--------------------------------|--------------------|---|---|-------------------------|
| | GAAP | Acquisition- Related Adjustments* | Retirement- Related Adjustments** | Operating (Non-GAAP) |
| Gross Profit | \$ 50,138 | \$ 341 | \$ 2 | \$ 50,481 |
| Gross Profit Margin | 46.9% | 0.3Pts | 0.0Pts | 47.2% |
| S,G&A | 23,594 | (309) | (13) | 23,272 |
| R,D&E | 6,258 | 0 | 88 | 6,345 |
| Other (Income) & Expense | (20) | (25) | 0 | (45) |
| Total Expense & Other (Income) | 29,135 | (334) | 74 | 28,875 |
| Pre-Tax Income | 21,003 | 675 | (72) | 21,605 |
| Pre-Tax Income Margin | 19.6% | 0.6Pts | -0.1Pts | 20.2% |
| Provision for Income Taxes*** | 5,148 | 179 | (40) | 5,287 |
| Effective Tax Rate | 24.5% | 0.1Pts | -0.1Pts | 24.5% |
| Net Income | 15,855 | 495 | (32) | 16,318 |
| Net Income Margin | 14.8% | 0.5Pts | -0.0Pts | 15.3% |
| Diluted Earnings Per Share | \$ 13.06 | \$ 0.41 | \$ (0.03) | \$ 13.44 |

| | TWELVE-MONTHS 2010 | | | |
|--------------------------------|--------------------|---|---|-------------------------|
| | GAAP | Acquisition- Related Adjustments* | Retirement- Related Adjustments** | Operating (Non-GAAP) |
| Gross Profit | \$ 46,014 | \$ 260 | \$ (204) | \$ 46,070 |
| Gross Profit Margin | 46.1% | 0.3Pts | -0.2Pts | 46.1% |
| S,G&A | 21,837 | (294) | 84 | 21,628 |
| R,D&E | 6,026 | 0 | 126 | 6,152 |
| Other (Income) & Expense | (787) | (4) | 0 | (791) |
| Total Expense & Other (Income) | 26,291 | (298) | 210 | 26,202 |
| Pre-Tax Income | 19,723 | 558 | (414) | 19,867 |
| Pre-Tax Income Margin | 19.7% | 0.6Pts | -0.4Pts | 19.9% |
| Provision for Income Taxes*** | 4,890 | 116 | (162) | 4,844 |
| Effective Tax Rate | 24.8% | -0.1Pts | -0.3Pts | 24.4% |
| Net Income | 14,833 | 443 | (253) | 15,023 |
| Net Income Margin | 14.9% | 0.4Pts | -0.3Pts | 15.0% |
| Diluted Earnings Per Share | \$ 11.52 | \$ 0.34 | \$ (0.20) | \$ 11.67 |

* 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.

Contact: IBM
Mike Fay, 914-499-6107
mikefay@us.ibm.com

John Bukovinsky, 732-618-3531
jbuko@us.ibm.com

