INTERNATIONAL BUSINESS MACHINES CORP
Form 8-K
October 17, 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: **October 17, 2011**

(Date of earliest event reported)

INTERNATIONAL BUSINESS MACHINES CORPORATION

(Exact name of registrant as specified in its charter)

New York	**1-2360**	**13-0871985**
(State of Incorporation)	(Commission File Number)	(IRS employer Identification No.)

ARMONK, NEW YORK	**10504**
(Address of principal executive offices)	(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))

Item 2.02. Results of Operations and Financial Condition.

The registrant s press release dated October 17, 2011, regarding its financial results for the periods ended September 30, 2011, including consolidated financial statements for the periods ended September 30, 2011, 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 17, 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: October 17, 2011

By: /s/ James J. Kavanaugh

James J. Kavanaugh
Vice President and Controller

ATTACHMENT I

IBM REPORTS 2011 THIRD-QUARTER RESULTS

- **Diluted EPS:**
- **GAAP: $3.19, up 13 percent;**
- **Operating (non-GAAP): $3.28, up 15 percent;**
- **Revenue: $26.2 billion, up 8 percent, up 3 percent adjusting for currency;**
- **Net income:**
- **GAAP: $3.8 billion, up 7 percent;**
- **Operating (non-GAAP): $4.0 billion, up 9 percent;**
- **Pre-tax income:**
- **GAAP: $5.0 billion, up 7 percent;**
- **Operating (non-GAAP): $5.2 billion, up 10 percent;**
- **Gross profit margin:**
- **GAAP: 46.5 percent, up 1.2 points;**
- **Operating (non-GAAP): 46.8 percent, up 1.5 points;**
- **Software revenue up 13 percent, 8 percent adjusting for currency;**
- **Services revenue up 8 percent, 2 percent adjusting for currency;**
- **Services backlog of $137 billion, up $2.4 billion;**
- **Systems and Technology revenue up 4 percent, 1 percent adjusting for currency:**
- **Power Systems up 15 percent;**
- **Growth markets revenue up 19 percent, 13 percent adjusting for currency;**
- **Business analytics revenue up 19 percent year to date;**
- **Smarter Planet revenue up 50 percent year to date;**

- **Cloud revenue year to date has doubled full-year 2010 revenue;**
- **Full-year 2011 Operating (non-GAAP) EPS expectations raised to at least $13.35 from at least $13.25.**

ARMONK, N.Y., October 17, 2011 . . . IBM (NYSE: IBM) today announced third-quarter 2011 diluted earnings of $3.19 per share, compared with diluted earnings of $2.82 per share in the third quarter of 2010, an increase of 13 percent. Operating (non-GAAP) diluted earnings were $3.28 per share, compared with operating diluted earnings of $2.85 per share in the third quarter of 2010, an increase of 15 percent.

Third-quarter net income was $3.8 billion compared with $3.6 billion in the third quarter of 2010, an increase of 7 percent. Operating (non-GAAP) net income was $4.0 billion compared with $3.6 billion in the third quarter of 2010, an increase of 9 percent.

Total revenues for the third quarter of 2011 of $26.2 billion increased 8 percent (3 percent, adjusting for currency) from the third quarter of 2010.

In the third quarter, we drove revenue growth, margin expansion and increased earnings as a result of our innovation-based strategy and continued investment in growth initiatives, said Samuel J. Palmisano, IBM chairman, president and chief executive officer. Growth markets delivered outstanding revenue performance across software, hardware, and services and contributed to the company s expanded margins. We also achieved strong results in Smarter Planet, business analytics and cloud.

Based on this performance, we are raising our 2011 full-year operating earnings per share expectations to at least $13.35.

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

Third-quarter operating (non-GAAP) diluted earnings exclude $0.09 per share of net charges: $0.11 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 $12.95 from at least $12.87; and operating (non-GAAP) diluted earnings per share to at least $13.35 from at least $13.25. The 2011 operating (non-GAAP) earnings exclude $0.40 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 third-quarter revenues were $10.9 billion, an increase of 7 percent (6 percent, adjusting for currency) from the 2010 period. Revenues from Europe/Middle East/Africa were $8.0 billion, up 9 percent (flat, adjusting for currency). Asia-Pacific revenues increased 10 percent (1 percent, adjusting for currency) to $6.5 billion. OEM revenues were $743 million, down 8 percent (8 percent, adjusting for currency) compared with the 2010 third quarter.

Growth Markets

Revenues from the company s growth markets increased 19 percent (13 percent, adjusting for currency). Revenues in the BRIC countries Brazil, Russia, India and China increased 17 percent (13 percent, adjusting for currency). Growth markets revenue represents 23 percent of IBM s total geographic revenue for the third quarter.

Services

Total Global Services revenues increased 8 percent (2 percent, adjusting for currency). Global Technology Services segment revenues increased 9 percent (3 percent, adjusting for currency) to $10.3 billion. Global Business Services segment revenues were up 6 percent (flat, adjusting for currency) at $4.8 billion.

Total Global Services pre-tax income increased to $2.5 billion, up 13 percent year over year. Pre-tax income from both Global Technology Services and Global Business Services also increased 13 percent.

The estimated services backlog at September 30 was $137 billion, up $2.4 billion year over year at actual rates ($2.3 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 $5.8 billion, an increase of 13 percent (8 percent, adjusting for currency). Software pre-tax income of $2.2 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 $3.6 billion, an increase of 17 percent (12 percent, adjusting for currency) versus the third quarter of 2010. Operating systems revenues of $598 million increased 9 percent (4 percent, adjusting for currency) compared with the prior-year quarter.

Revenues from the WebSphere family of software products increased 52 percent year over year. Information Management software revenues increased 12 percent. Revenues from Tivoli software increased 8 percent. Revenues from Lotus software increased 6 percent, and Rational software increased 7 percent.

Hardware

Revenues from the Systems and Technology segment totaled $4.5 billion for the quarter, up 4 percent (1 percent, adjusting for currency) from the third quarter of 2010. Systems and Technology pre-tax income was $318 million, an increase of 8 percent year over year.

Systems revenues increased 6 percent (2 percent, adjusting for currency). Revenues from Power Systems increased 15 percent compared with the 2010 period. Revenues from System x increased 1 percent. Revenues from System z mainframe server products decreased 5 percent compared with the year-ago period. Total delivery of System z computing power, as measured in MIPS (millions of instructions per second), decreased 11 percent. Revenues from System Storage increased 8 percent, and revenues

from Retail Store Solutions increased 14 percent year over year. Revenues from Microelectronics OEM decreased 6 percent.

Financing

Global Financing segment revenues decreased 2 percent (6 percent, adjusting for currency) in the third quarter to $520 million. Pre-tax income for the segment decreased 4 percent to $481 million.

***

The company s total gross profit margin was 46.5 percent in the 2011 third quarter compared with 45.3 percent in the 2010 third-quarter period. Total operating (non-GAAP) gross profit margin was 46.8 percent in the 2011 third quarter compared with 45.4 percent in the 2010 third-quarter period, with increases in Software, Services and Systems and Technology.

Total expense and other income increased 13 percent to $7.1 billion compared with the prior-year period. S,G&A expense of $5.7 billion increased 10 percent compared with prior-year expense. R,D&E expense of $1.5 billion increased 6 percent compared with the year-ago period. Intellectual property and custom development income increased to $298 million compared with $278 million a year ago. Other (income) and expense was expense of $128 million compared with prior-year income of $106 million. Interest expense increased to $107 million compared with $95 million in the prior year.

Total operating (non-GAAP) expense and other income increased 12 percent to $7.1 billion compared with the prior-year period. Operating (non-GAAP) S,G&A expense of $5.6 billion increased 10 percent year over year compared with prior-year expense. Operating (non-GAAP) R,D&E expense of $1.6 billion increased 5 percent compared with the year-ago period.

Pre-tax income increased 7 percent to $5.0 billion, and pre-tax margin was 19.2 percent, down 0.1 points. Operating (non-GAAP) pre-tax income increased 10 percent to $5.2 billion and pre-tax margin was 19.8 percent, up 0.4 points.

IBM s tax rate was 23.6 percent, up 0.4 points year over year; operating (non-GAAP) tax rate was also 23.6 percent, up 0.6 points.

Net income margin decreased 0.1 points to 14.7 percent. Operating (non-GAAP) net income margin increased 0.2 points to 15.1 percent.

The weighted-average number of diluted common shares outstanding in the third-quarter 2011 was 1.20 billion compared with 1.27 billion shares in the same period of 2010. As of September 30, 2011, there were 1.18 billion basic common shares outstanding.

Debt, including Global Financing, totaled $30.2 billion, compared with $28.6 billion at year-end 2010. From a management segment view, Global Financing debt totaled $22.8 billion versus $22.8 billion at year-end 2010, resulting in a debt-to-equity ratio of 7.1 to 1. Non-global financing debt totaled $7.4 billion, an increase of $1.6 billion since year-end 2010, resulting in a debt-to-capitalization ratio of 27.8 percent from 22.6 percent.

IBM ended the third-quarter 2011 with $11.3 billion of cash on hand and generated free cash flow of $3.5 billion, up approximately $300 million year over year. The company returned $4.3 billion to shareholders through $0.9 billion in dividends and $3.4 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 nine months ended September 30, 2011 was $10.4 billion compared with $9.6 billion in the year-ago period, an increase of 8 percent. Diluted earnings per share were $8.48 compared with $7.38 per diluted share for the 2010 period, an increase of 15 percent. Revenues for the nine-month period totaled $77.4 billion, an increase of 9 percent (4 percent, adjusting for currency) compared with $70.9 billion for the nine months of 2010.

Operating (non-GAAP) net income for the nine months ended September 30, 2011 was $10.7 billion compared with $9.7 billion in the year-ago period, an increase of 11

percent. Operating (non-GAAP) diluted earnings per share were $8.77 compared with $7.45 per diluted share for the 2010 period, an increase of 18 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 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 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/3q11. 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,		
	2011	2010*	Percent Change	2011	2010*	Percent Change
REVENUE						
Global Technology Services	$ 10,322	$ 9,496	8.7%	$ 30,427	$ 28,036	8.5%
Gross margin	35.7%	35.1%		34.5%	34.5%	
Global Business Services	4,832	4,572	5.7%	14,407	13,465	7.0%
Gross margin	29.4%	28.6%		28.6%	28.0%	
Software	5,817	5,151	12.9%	17,295	15,447	12.0%
Gross margin	88.1%	87.9%		87.9%	87.2%	
Systems and Technology	4,482	4,325	3.6%	13,182	11,696	12.7%
Gross margin	39.8%	36.4%		39.5%	35.2%	
Global Financing	520	529	-1.7%	1,555	1,610	-3.4%
Gross margin	47.4%	53.3%		49.9%	51.1%	
Other	182	199	-8.3%	563	599	-5.9%
Gross margin	-48.3%	-10.8%		-66.7%	-13.3%	
TOTAL REVENUE	26,157	24,271	7.8%	77,430	70,852	9.3%
GROSS PROFIT	12,173	11,001	10.6%	35,416	31,787	11.4%
Gross margin	46.5%	45.3%		45.7%	44.9%	
EXPENSE AND OTHER INCOME						
S,G&A	5,662	5,149	10.0%	17,518	15,886	10.3%
% of revenue	21.6%	21.2%		22.6%	22.4%	
R,D&E	1,546	1,464	5.6%	4,703	4,448	5.7%
% of revenue	5.9%	6.0%		6.1%	6.3%	
Intellectual property and custom development income	(298)	(278)	7.2%	(855)	(836)	2.2%
Other (income) and expense	128	(106)	nm	23	(746)	nm
Interest expense	107	95	13.5%	298	267	11.6%
TOTAL EXPENSE AND OTHER INCOME	7,146	6,324	13.0%	21,687	19,019	14.0%
% of revenue	27.3%	26.1%		28.0%	26.8%	
INCOME BEFORE INCOME TAXES	5,027	4,677	7.5%	13,729	12,767	7.5%
Pre-tax margin	19.2%	19.3%		17.7%	18.0%	

Provision for income taxes		1,188		1,088	9.2%		3,364		3,192	5.4%
Effective tax rate		23.6%		23.3%			24.5%		25.0%	
NET INCOME	$	3,839	$	3,589	7.0%	$	10,365	$	9,576	8.2%
Net margin		14.7%		14.8%			13.4%		13.5%	
EARNINGS PER SHARE OF COMMON STOCK:										
ASSUMING DILUTION	$	3.19	$	2.82	13.1%	$	8.48	$	7.38	14.9%
BASIC	$	3.23	$	2.86	12.9%	$	8.60	$	7.49	14.8%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUT- STANDING (M s):										
ASSUMING DILUTION		1,204.9		1,272.8			1,222.1		1,297.0	
BASIC		1,188.6		1,255.2			1,205.2		1,278.3	

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 September 30, 2011	At December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 11,303	$ 10,661
Marketable securities		990
Notes and accounts receivable - trade (net of allowances of $282 in 2011 and $324 in 2010)	9,719	10,834
Short-term financing receivables (net of allowances of $266 in 2011 and $342 in 2010)	14,145	16,257
Other accounts receivable (net of allowances of $11 in 2011 and $10 in 2010)	1,123	1,134
Inventories, at lower of average cost or market:		
Finished goods	618	432
Work in process and raw materials	2,045	2,018
Total inventories	2,663	2,450
Deferred taxes	1,247	1,564
Prepaid expenses and other current assets	5,172	4,226
Total Current Assets	45,373	48,116
Plant, rental machines, and other property	40,139	40,289
Less: Accumulated depreciation	26,252	26,193
Plant, rental machines, and other property - net	13,887	14,096
Long-term financing receivables (net of allowances of $37 in 2011 and $58 in 2010)	9,830	10,548
Prepaid pension assets	5,131	3,068
Deferred taxes	2,570	3,220
Goodwill	24,913	25,136
Intangible assets - net	3,033	3,488
Investments and sundry assets	5,422	5,778
Total Assets	$ 110,158	$ 113,452
LIABILITIES		
Current Liabilities:		
Taxes	$ 2,360	$ 4,216
Short-term debt	6,071	6,778
Accounts payable	7,093	7,804
Compensation and benefits	4,826	5,028
Deferred income	11,252	11,580
Other accrued expenses and liabilities	4,426	5,156
Total Current Liabilities	36,028	40,562
Long-term debt	24,089	21,846
Retirement and nonpension postretirement benefit obligations	15,375	15,978
Deferred income	3,634	3,666
Other liabilities	8,654	8,226
Total Liabilities	87,781	90,279

EQUITY				
IBM Stockholders Equity:				
Common stock		47,558		45,418
Retained earnings		100,266		92,532
Treasury stock at cost		(107,434)		(96,161)
Accumulated other comprehensive income/(loss)		(18,099)		(18,743)
Total IBM stockholders equity		22,291		23,046
Noncontrolling interests		87		126
Total Equity		22,378		23,172
Total Liabilities and Equity	$	110,158	$	113,452

INTERNATIONAL BUSINESS MACHINES CORPORATION

CASH FLOW ANALYSIS

(Unaudited)

(Dollars in Millions)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net Cash from Operating Activities per GAAP:	$ 4,678	$ 4,551	$ 12,750	$ 12,754
Less: the change in Global Financing (GF) Receivables	207	374	2,110	2,257
Net Cash from Operating Activities (Excluding GF Receivables)	4,471	4,177	10,640	10,497
Capital Expenditures, Net	(991)	(1,007)	(3,000)	(2,881)
Free Cash Flow (Excluding GF Receivables)	3,481	3,169	7,640	7,616
Acquisitions	(64)	(1,984)	(223)	(2,993)
Divestitures	0	0	4	0
Dividends	(893)	(818)	(2,593)	(2,369)
Share Repurchase	(3,444)	(3,653)	(11,465)	(11,774)
Non-GF Debt	86	273	1,093	1,534
Other (includes GF Receivables, and GF Debt)	374	1,858	5,196	5,099
Change in Cash, Cash Equivalents and Short-term Marketable Securities	$ (461)	$ (1,154)	$ (348)	$ (2,887)

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

	THIRD-QUARTER 2011				
(Dollars in Millions)	External	Revenue Internal	Total	Pre-tax Income	Pre-tax Margin
SEGMENTS					
Global Technology Services	$ 10,322	$ 316	$ 10,638	$ 1,695	15.9%
Y-T-Y change	8.7%	-12.6%	7.9%	12.5%	
Global Business Services	4,832	199	5,031	775	15.4%
Y-T-Y change	5.7%	0.1%	5.5%	12.8%	
Software	5,817	804	6,621	2,214	33.4%
Y-T-Y change	12.9%	10.4%	12.6%	12.0%	
Systems and Technology	4,482	190	4,672	318	6.8%
Y-T-Y change	3.6%	-3.2%	3.3%	7.8%	
Global Financing	520	480	999	481	48.2%
Y-T-Y change	-1.7%	10.9%	4.0%	-4.0%	
TOTAL REPORTABLE SEGMENTS	$ 25,974	$ 1,989	$ 27,963	$ 5,484	19.6%
Y-T-Y change	7.9%	3.7%	7.6%	10.4%	
Eliminations / Other	182	(1,989)	(1,806)	(457)	
TOTAL IBM CONSOLIDATED	$ 26,157	$ 0	$ 26,157	$ 5,027	19.2%
Y-T-Y change	7.8%		7.8%	7.5%	

	THIRD-QUARTER 2010				
(Dollars in Millions)	External	Revenue Internal	Total	Pre-tax Income*	Pre-tax Margin*
SEGMENTS					
Global Technology Services	$ 9,496	$ 362	$ 9,857	$ 1,506	15.3%
Global Business Services	4,572	199	4,771	687	14.4%
Software	5,151	728	5,879	1,978	33.6%
Systems and Technology	4,325	196	4,521	295	6.5%
Global Financing	529	432	961	502	52.2%
TOTAL REPORTABLE SEGMENTS	$ 24,072	$ 1,917	$ 25,990	$ 4,968	19.1%
Eliminations / Other	199	(1,917)	(1,718)	(291)	
TOTAL IBM CONSOLIDATED	$ 24,271	$ 0	$ 24,271	$ 4,677	19.3%

* Reclassified to conform with 2011 presentation.

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

	NINE-MONTHS 2011				
(Dollars in Millions)	**External**	**Revenue Internal**	**Total**	**Pre-tax Income**	**Pre-tax Margin**
SEGMENTS					
Global Technology Services	$ 30,427	$ 943	$ 31,370	$ 4,353	13.9%
Y-T-Y change	8.5%	-7.0%	8.0%	12.7%	
Global Business Services	14,407	604	15,012	2,166	14.4%
Y-T-Y change	7.0%	0.9%	6.7%	19.6%	
Software	17,295	2,425	19,720	6,260	31.7%
Y-T-Y change	12.0%	11.4%	11.9%	1.5%	
Systems and Technology	13,182	652	13,834	843	6.1%
Y-T-Y change	12.7%	14.1%	12.8%	197.9%	
Global Financing	1,555	1,524	3,078	1,497	48.6%
Y-T-Y change	-3.4%	20.3%	7.0%	7.6%	
TOTAL REPORTABLE SEGMENTS	$ 76,866	$ 6,148	$ 83,015	$ 15,118	18.2%
Y-T-Y change	9.4%	9.3%	9.4%	11.9%	
Eliminations / Other	563	(6,148)	(5,585)	(1,389)	
TOTAL IBM CONSOLIDATED	$ 77,430	$ 0	$ 77,430	$ 13,729	17.7%
Y-T-Y change	9.3%		9.3%	7.5%	

	NINE-MONTHS 2010				
(Dollars in Millions)	**External**	**Revenue Internal**	**Total**	**Pre-tax Income***	**Pre-tax Margin***
SEGMENTS					
Global Technology Services	$ 28,036	$ 1,014	$ 29,050	$ 3,863	13.3%
Global Business Services	13,465	599	14,064	1,811	12.9%
Software	15,447	2,176	17,623	6,167	35.0%
Systems and Technology	11,696	572	12,267	283	2.3%
Global Financing	1,610	1,267	2,877	1,391	48.3%
TOTAL REPORTABLE SEGMENTS	$ 70,253	$ 5,627	$ 75,880	$ 13,514	17.8%
Eliminations / Other	599	(5,627)	(5,028)	(747)	
TOTAL IBM CONSOLIDATED	$ 70,852	$ 0	$ 70,852	$ 12,767	18.0%

* 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)

	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%
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

	THIRD-QUARTER 2010			
	GAAP	Acquisition-Related Adjustments*	Retirement-Related Adjustments	Operating (Non-GAAP)
Gross Profit	$ 11,001	$ 65	$ (53)	$ 11,013
Gross Profit Margin	45.3%	0.3Pts	-0.2Pts	45.4%
S,G&A	5,149	(76)	20	5,094
R,D&E	1,464	0	31	1,495
Other (Income) & Expense	(106)	1	0	(105)
Total Expense & Other (Income)	6,324	(75)	51	6,301
Pre-Tax Income	4,677	139	(104)	4,712
Pre-Tax Income Margin	19.3%	0.6Pts	-0.4Pts	19.4%

Provision for Income Taxes**	1,088	34	(38)	1,084
Effective Tax Rate	23.3%	0.0Pts	-0.3Pts	23.0%
Net Income	3,589	105	(66)	3,628
Net Income Margin	14.8%	0.4Pts	-0.3Pts	14.9%
Diluted Earnings Per Share	$ 2.82	$ 0.08	$ (0.05)	$ 2.85

* 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)

	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

	NINE-MONTHS 2010			
	GAAP	Acquisition-Related Adjustments*	Retirement-Related Adjustments	Operating (Non-GAAP)
Gross Profit	$ 31,787	$ 178	$ (144)	$ 31,820
Gross Profit Margin	44.9%	0.3Pts	-0.2Pts	44.9%
S,G&A	15,886	(199)	56	15,744
R,D&E	4,448	0	93	4,541
Other (Income) & Expense	(746)	(2)	0	(747)
Total Expense & Other (Income)	19,019	(200)	149	18,968
Pre-Tax Income	12,767	378	(293)	12,853
Pre-Tax Income Margin	18.0%	0.5Pts	-0.4Pts	18.1%

Provision for Income Taxes**	3,192	106	(114)	3,184
Effective Tax Rate	25.0%	0.1Pts	-0.3Pts	24.8%
Net Income	9,576	272	(179)	9,669
Net Income Margin	13.5%	0.4Pts	-0.3Pts	13.6%
Diluted Earnings Per Share	$ 7.38	$ 0.21	$ (0.14)	$ 7.45

* 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.

Contact: IBM
Mike Fay, 914-499-6107
mikefay@us.ibm.com
John Bukovinsky, 732-618-3531
jbuko@us.ibm.com

ATTACHMENT II