

INTERNATIONAL BUSINESS MACHINES CORP
Form 8-K
July 19, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

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

Date of Report: **July 19, 2010**

(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))
-

Item 2.02. Results of Operations and Financial Condition.

The registrant's press release dated July 19, 2010, regarding its financial results for the periods ended June 30, 2010, including consolidated financial statements for the periods ended June 30, 2010, is Attachment I of this Form 8-K. Attachment II are the slides for IBM's Chief Financial Officer Mark Loughridge's second quarter earnings presentation on July 19, 2010, as well as certain reconciliation and other information (Non-GAAP Supplementary Materials) for information in Attachment I (press release), Attachment II (slides) and in Mr. Loughridge's presentation. All of the information in Attachment I and II is hereby filed.

IBM's web site (www.ibm.com) contains a significant amount of information about IBM, including financial and other information for investors (www.ibm.com/investor/). IBM encourages investors to visit its various web sites from time to time, as information is updated and new information is posted.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

Date: July 19, 2010

By: /s/ James J. Kavanaugh

James J. Kavanaugh
Vice President and Controller

IBM REPORTS 2010 SECOND-QUARTER RESULTS

- Diluted earnings per share of \$2.61, up 13 percent;
- 30 consecutive quarters of EPS growth, 12 of last 14 at double digits;
- Full-year 2010 EPS expectations raised to at least \$11.25;
- Net income of \$3.4 billion, up 9 percent;
- Pre-tax income of \$4.6 billion, up 7 percent;
- Pre-tax margin of 19.3 percent, up 1 point;
- Revenue of \$23.7 billion, up 2 percent, as reported and adjusting for currency;
- Growth markets revenue up 14 percent; first-half revenue as large as total Euro zone revenue;
- BRIC countries revenue up 22 percent;
- Business Analytics revenue up 14 percent;
- Software revenue up 2 percent, 6 percent excluding divested PLM operations;
- Systems and Technology revenue up 3 percent;
- Services revenue up 2 percent;
- Services backlog of \$129 billion, up \$1 billion, adjusting for currency.

ARMONK, N.Y., July 19, 2010 . . . IBM (NYSE: IBM) today announced second-quarter 2010 diluted earnings of \$2.61 per share compared with diluted earnings of \$2.32 per share in the second quarter of 2009, an increase of 13 percent.

Second-quarter net income was \$3.4 billion compared with \$3.1 billion in the second quarter of 2009, an increase of 9 percent. Total revenues for the second quarter of 2010 of \$23.7 billion increased 2 percent (2 percent, adjusting for currency) from the second quarter of 2009. The impact of changes in currency rates since IBM's first-quarter earnings report in April reduced revenue by approximately \$500 million in the second quarter.

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In the second quarter we again delivered double-digit earnings-per-share growth, increased margins, as well as improving constant-currency revenue performance in our on going software, services and hardware businesses, and in all geographies, said Samuel J. Palmisano, IBM chairman, president and chief executive officer.

With the benefit of our strategic growth investments, our mix of higher-value business and the introduction of new System z and Power Systems, we are confident of our ability in the second half of the year to continue our strong business performance, grow profit and drive shareholder returns. As a result, we expect full-year 2010 diluted earnings per share of at least \$11.25.

From a geographic perspective, the Americas second-quarter revenues were \$10.2 billion, an increase of 3 percent (2 percent, adjusting for currency) from the 2009 period. Revenues from Europe/Middle East/Africa were \$7.4 billion, down 6 percent (1 percent, adjusting for currency). Asia-Pacific revenues increased 9 percent (3 percent, adjusting for currency) to \$5.4 billion. OEM revenues were \$677 million, up 26 percent compared with the 2009 second quarter. Revenues from the company's growth markets organization increased 14 percent (9 percent, adjusting for currency) and represented 20 percent of IBM's total geographic revenue in the quarter. In the first half, revenue for the growth markets organization was as large as the total revenue of the Euro zone countries for the first time.

Total Global Services revenues increased 2 percent (1 percent, adjusting for currency). Global Technology Services segment revenues increased 1 percent (flat, adjusting for currency) to \$9.2 billion. Global Business Services segment revenues were up 3 percent (3 percent, adjusting for currency) at \$4.5 billion.

IBM signed services contracts totaling \$12.3 billion, at actual rates, a decrease of 12 percent (12 percent, adjusting for currency). In the quarter, 15 services contracts greater than \$100 million were signed compared with 13 contracts last quarter.

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Total Outsourcing services (GTS Outsourcing and Application Management Outsourcing) signings decreased 19 percent (19 percent, adjusting for currency) to \$6.5 billion. Signings of larger new-business outsourcing services contracts, which result in more immediate revenue than contract extensions, had strong growth.

Signings in Transactional services (Consulting, Integrated Technology Services and Application Management Systems Integration) were \$5.8 billion, a decrease of 3 percent (3 percent, adjusting for currency).

The estimated services backlog at June 30 was \$129 billion at actual rates, down \$2 billion year over year (up \$1 billion, adjusting for currency).

Revenues from the Software segment were \$5.3 billion, an increase of 2 percent (2 percent, adjusting for currency), or 6 percent excluding the first-quarter divestiture of the Product Lifecycle Management operations (PLM), compared with the second quarter of 2009. Revenues from IBM's key middleware products, which include WebSphere, Information Management, Tivoli, Lotus and Rational products, were \$3.3 billion, an increase of 9 percent (10 percent, adjusting for currency) versus the second quarter of 2009. Operating systems revenues of \$544 million increased 3 percent (2 percent, adjusting for currency) compared with the prior-year quarter.

Revenues from the WebSphere family of software products, which delivers capabilities that enable clients to integrate and manage business processes across the organization, increased 17 percent year over year. Revenues from Information Management software, which enables clients to integrate, manage and use information to gain business value, increased 7 percent. Revenues from Tivoli software, which helps clients manage technology and business assets by providing visibility, control and automation across the organization, increased 18 percent, and revenues from Lotus software, which connects people and processes for more effective communication and increased productivity through collaboration, messaging and social networking software, decreased 6 percent. Revenues from Rational software, which supports software development for both IT and embedded system solutions, increased 1 percent.

Revenues from the company's Business Analytics operations within Global Business Services and Software increased 14 percent.

Revenues from the Systems and Technology segment totaled \$4.0 billion for the quarter, up 3 percent (4 percent, adjusting for currency) from the second quarter of 2009. Systems revenues increased 1 percent (2 percent, adjusting for currency). Revenues from the System x increased 30 percent. Revenues from Power Systems decreased 10 percent compared with the 2009 period. Revenues from System z mainframe server products decreased 24 percent compared with the year-ago period. Total delivery of System z computing power, as measured in MIPS (millions of instructions per second), decreased 14 percent. Revenues from System Storage increased 5 percent, and revenues from Retail Store Solutions increased 31 percent. Revenues from Microelectronics OEM increased 23 percent.

Global Financing segment revenues decreased 4 percent (5 percent, adjusting for currency) in the second quarter to \$544 million.

The company's total gross profit margin was 45.6 percent in the 2010 second quarter compared with 45.5 percent in the 2009 second-quarter period, led by improving margins in Software and Global Business Services.

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Total expense and other income decreased 1 percent to \$6.2 billion compared with the prior-year period. SG&A expense of \$5.1 billion decreased 1 percent year over year compared with prior-year expense. RD&E expense of \$1.5 billion increased 3 percent compared with the year-ago period. Intellectual property and custom development income decreased to \$297 million compared with \$302 million a year ago. Other (income) and expense was income of \$95 million compared with prior-year income of \$28 million. Interest expense decreased to \$90 million compared with \$101 million in the prior year.

IBM's tax rate in the second-quarter 2010 was 26.0 percent compared with 27.2 percent in the second quarter of 2009.

The weighted-average number of diluted common shares outstanding in the

second-quarter 2010 was 1.30 billion compared with 1.34 billion shares in the same period of 2009. As of June 30, 2010, there were 1.26 billion basic common shares outstanding.

Debt, including Global Financing, totaled \$26.7 billion, compared with \$26.1 billion at year-end 2009. From a management segment view, Global Financing debt totaled \$21.2 billion versus \$22.4 billion at year-end 2009, resulting in a debt-to-equity ratio of 7.1 to 1. Non-global financing debt totaled \$5.5 billion, an increase of \$1.7 billion since year-end 2009, resulting in a debt-to-capitalization ratio of 23.1 percent from 16.0 percent.

IBM ended the second-quarter 2010 with \$12.2 billion of cash on hand and generated free cash flow of \$3.0 billion, down approximately \$400 million year over year. Free cash flow for the first half of the year was \$4.4 billion, flat year over year. The company returned \$4.9 billion to shareholders through \$0.8 billion in dividends and \$4.1 billion of share repurchases. The balance sheet remains strong, and the company is well positioned to support its full-year objectives.

Year-To-Date 2010 Results

Net income for the six months ended June 30, 2010 was \$6.0 billion compared with \$5.4 billion in the year-ago period, an increase of 11 percent. Diluted earnings per share were \$4.57 compared with \$4.02 per diluted share for the 2009 period, an increase of 14 percent. Revenues for the six-month period totaled \$46.6 billion, an increase of 4 percent (1 percent, adjusting for currency) compared with \$45.0 billion for the six months of 2009.

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 revenue 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; impact of relationships with critical suppliers; 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

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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

- presenting non-global financing debt-to-capitalization ratio;
- adjusting for free cash flow;
- adjusting for currency (i.e., at constant currency);
- excluding divested PLM operations.

The rationale for management's use of non-GAAP measures is included as part of the supplementary materials presented within the second-quarter earnings materials. These materials are available on the IBM investor relations Web site at www.ibm.com/investor and are being included in Attachment II (Non-GAAP Supplementary Materials) to the Form 8-K that includes this press release and is being submitted today to the SEC.

Conference Call and Webcast

IBM's regular quarterly earnings conference call is scheduled to begin at 4:30 p.m. EDT, today. Investors may participate by viewing the Webcast at www.ibm.com/investor/2q10. 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 June 30, | | | Six Months Ended June 30, | | |
|----------------------------|--------------------------------|----------|-------------------|------------------------------|-----------|-------------------|
| | 2010 | 2009 | Percent Change | 2010 | 2009 | Percent Change |
| REVENUE | | | | | | |
| Global Technology Services | \$ 9,234 | \$ 9,108 | 1.4% | \$ 18,540 | \$ 17,862 | 3.8% |
| Gross margin | 34.6% | 34.8% | | 34.5% | 34.3% | |
| Global Business Services | 4,483 | 4,338 | 3.3% | 8,893 | 8,736 | 1.8% |
| Gross margin | 28.5% | 27.2% | | 27.9% | 26.8% | |

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| | | | | | | |
|--|-----------------|-----------------|--------------|-----------------|-----------------|--------------|
| Software | 5,277 | 5,166 | 2.1% | 10,296 | 9,705 | 6.1% |
| Gross margin | 87.1% | 85.9% | | 85.9% | 85.1% | |
| Systems and Technology | 3,985 | 3,855 | 3.4% | 7,370 | 7,083 | 4.1% |
| Gross margin | 36.1% | 37.1% | | 34.9% | 35.7% | |
| Global Financing | 544 | 568 | -4.1% | 1,081 | 1,146 | -5.6% |
| Gross margin | 50.1% | 47.1% | | 49.9% | 46.5% | |
| Other | 200 | 215 | -7.0% | 400 | 429 | -6.8% |
| Gross margin | 17.7% | 47.4% | | -8.9% | 50.1% | |
| TOTAL REVENUE | 23,724 | 23,250 | 2.0% | 46,581 | 44,962 | 3.6% |
| GROSS PROFIT | 10,809 | 10,581 | 2.2% | 20,785 | 20,012 | 3.9% |
| Gross margin | 45.6% | 45.5% | | 44.6% | 44.5% | |
| EXPENSE AND OTHER INCOME | | | | | | |
| S, G&A | 5,061 | 5,115 | -1.1% | 10,737 | 10,379 | 3.5% |
| % of revenue | 21.3% | 22.0% | | 23.1% | 23.1% | |
| R, D&E | 1,475 | 1,434 | 2.9% | 2,984 | 2,914 | 2.4% |
| % of revenue | 6.2% | 6.2% | | 6.4% | 6.5% | |
| Intellectual property and custom development income | (297) | (302) | -1.8% | (558) | (570) | -2.1% |
| Other (income) and expense | (95) | (28) | nm | (640) | (331) | 93.2% |
| Interest expense | 90 | 101 | -11.1% | 172 | 237 | -27.5% |
| TOTAL EXPENSE AND OTHER INCOME | 6,234 | 6,319 | -1.4% | 12,695 | 12,628 | 0.5% |
| % of revenue | 26.3% | 27.2% | | 27.3% | 28.1% | |
| INCOME BEFORE INCOME TAXES | 4,575 | 4,262 | 7.3% | 8,090 | 7,385 | 9.6% |
| Pre-tax margin | 19.3% | 18.3% | | 17.4% | 16.4% | |
| Provision for income taxes | 1,190 | 1,159 | 2.6% | 2,103 | 1,986 | 5.9% |
| Effective tax rate | 26.0% | 27.2% | | 26.0% | 26.9% | |
| NET INCOME | \$ 3,386 | \$ 3,103 | 9.1% | \$ 5,987 | \$ 5,398 | 10.9% |
| Net margin | 14.3% | 13.3% | | 12.9% | 12.0% | |
| EARNINGS PER SHARE OF COMMON STOCK: | | | | | | |
| ASSUMING DILUTION | \$ 2.61 | \$ 2.32 | 12.5% | \$ 4.57 | \$ 4.02 | 13.7% |
| BASIC | \$ 2.65 | \$ 2.34 | 13.2% | \$ 4.64 | \$ 4.04 | 14.9% |
| WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (M s): | | | | | | |
| ASSUMING DILUTION | 1,296.7 | 1,336.9 | | 1,309.2 | 1,343.2 | |
| BASIC | 1,278.6 | 1,326.1 | | 1,289.9 | 1,335.2 | |

nm - not meaningful

INTERNATIONAL BUSINESS MACHINES CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

| (Dollars in Millions) | At June 30, 2010 | At December 31, 2009 |
|---|---------------------|-------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 10,325 | \$ 12,183 |
| Marketable securities | 1,916 | 1,791 |
| Notes and accounts receivable - trade (net of allowances of \$291 in 2010 and \$217 in 2009) | 9,051 | 10,736 |
| Short-term financing receivables (net of allowances of \$376 in 2010 and \$438 in 2009) | 13,301 | 14,914 |
| Other accounts receivable (net of allowances of \$11 in 2010 and \$15 in 2009) | 1,140 | 1,143 |
| Inventories, at lower of average cost or market: | | |
| Finished goods | 493 | 533 |
| Work in process and raw materials | 2,102 | 1,960 |
| Total inventories | 2,595 | 2,494 |
| Deferred taxes | 1,444 | 1,730 |
| Prepaid expenses and other current assets | 5,124 | 3,946 |
| Total Current Assets | 44,895 | 48,935 |
| Plant, rental machines, and other property | 38,292 | 39,596 |
| Less: Accumulated depreciation | 24,758 | 25,431 |
| Plant, rental machines, and other property - net | 13,534 | 14,165 |
| Long-term financing receivables (net of allowances of \$84 in 2010 and \$97 in 2009) | 9,185 | 10,644 |
| Prepaid pension assets | 3,575 | 3,001 |
| Deferred taxes | 3,122 | 4,195 |
| Goodwill | 20,544 | 20,190 |
| Intangible assets - net | 2,526 | 2,513 |
| Investments and sundry assets | 6,038 | 5,379 |
| Total Assets | \$ 103,420 | \$ 109,022 |
| LIABILITIES AND EQUITY | | |
| Current Liabilities: | | |
| Taxes | \$ 2,895 | \$ 3,826 |
| Short-term debt | 5,633 | 4,168 |
| Accounts payable | 7,233 | 7,436 |
| Compensation and benefits | 4,022 | 4,505 |
| Deferred income | 10,671 | 10,845 |
| Other accrued expenses and liabilities | 4,539 | 5,223 |
| Total Current Liabilities | 34,993 | 36,002 |
| Long-term debt | 21,017 | 21,932 |
| Retirement and nonpension postretirement benefit obligations | 14,598 | 15,953 |
| Deferred income | 3,341 | 3,562 |
| Other liabilities | 8,295 | 8,819 |

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| | | |
|---|------------|------------|
| Total Liabilities | 82,244 | 86,267 |
| Contingencies and Commitments | | |
| Equity: | | |
| IBM Stockholders' Equity: | | |
| Common stock | 43,522 | 41,810 |
| Retained earnings | 85,323 | 80,900 |
| Treasury stock at cost | (89,276) | (81,243) |
| Accumulated other comprehensive income/(loss) | (18,510) | (18,830) |
| Total IBM stockholders' equity | 21,059 | 22,637 |
| Noncontrolling interests | 117 | 118 |
| Total Equity | 21,176 | 22,755 |
| Total Liabilities and Equity | \$ 103,420 | \$ 109,022 |

INTERNATIONAL BUSINESS MACHINES CORPORATION

CASH FLOW ANALYSIS

(Unaudited)

| (Dollars in Millions) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| Net Cash from Operations | \$ 3,766 | \$ 4,741 | \$ 8,203 | \$ 9,127 |
| Less: Global Financing (GF) Accounts Receivable | (218) | 430 | 1,883 | 3,014 |
| Net Cash from Operations (Excluding GF Accounts Receivable) | 3,985 | 4,311 | 6,320 | 6,113 |
| Net Capital Expenditures | (970) | (864) | (1,873) | (1,624) |
| Free Cash Flow (Excluding GF Accounts Receivable) | 3,015 | 3,447 | 4,446 | 4,490 |
| Acquisitions | (185) | (79) | (1,009) | (100) |
| Divestitures | 0 | 0 | 0 | 356 |
| Share Repurchase | (4,104) | (1,670) | (8,121) | (3,436) |
| Dividends | (833) | (732) | (1,551) | (1,407) |
| Non-GF Debt | 920 | (266) | 1,261 | (2,181) |
| Other (including GF Accounts Receivable, GF Debt) | (548) | (469) | 3,241 | 1,898 |
| Change in Cash and Marketable Securities | \$ (1,736) | \$ 231 | \$ (1,732) | \$ (381) |

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

SECOND-QUARTER 2010

| (Dollars in Millions) | External | Revenue Internal | Total | Pre-tax Income | Pre-tax Margin |
|----------------------------------|------------------|---------------------|------------------|-------------------|-------------------|
| SEGMENTS | | | | | |
| Global Technology Services | \$ 9,234 | \$ 332 | \$ 9,566 | \$ 1,422 | 14.9% |
| Y-T-Y Change | 1.4% | -3.0% | 1.2% | 1.2% | |
| Global Business Services | 4,483 | 197 | 4,680 | 683 | 14.6% |
| Y-T-Y Change | 3.3% | -12.0% | 2.6% | 12.3% | |
| Software | 5,277 | 690 | 5,967 | 1,988 | 33.3% |
| Y-T-Y Change | 2.1% | 12.4% | 3.2% | 7.4% | |
| Systems and Technology | 3,985 | 202 | 4,187 | 221 | 5.3% |
| Y-T-Y Change | 3.4% | -16.9% | 2.2% | -33.8% | |
| Global Financing | 544 | 431 | 975 | 463 | 47.4% |
| Y-T-Y Change | -4.1% | -3.5% | -3.9% | -0.5% | |
| TOTAL REPORTABLE SEGMENTS | 23,523 | 1,852 | 25,376 | 4,777 | 18.8% |
| Y-T-Y Change | 2.1% | -0.9% | 1.9% | 2.4% | |
| Eliminations / Other | 200 | (1,852) | (1,652) | (202) | |
| TOTAL IBM CONSOLIDATED | \$ 23,724 | \$ 0 | \$ 23,724 | \$ 4,575 | 19.3% |
| Y-T-Y Change | 2.0% | | 2.0% | 7.3% | |

SECOND-QUARTER 2009

| (Dollars in Millions) | | | SECOND-QUARTER 2009 | | | |
|----------------------------------|------------------|---------------------|---------------------|-------------------|-------------------|--|
| | External | Revenue Internal | Total | Pre-tax Income | Pre-tax Margin | |
| SEGMENTS | | | | | | |
| Global Technology Services | \$ 9,108 | \$ 343 | \$ 9,451 | \$ 1,405 | 14.9% | |
| Global Business Services | 4,338 | 223 | 4,562 | 608 | 13.3% | |
| Software | 5,166 | 614 | 5,780 | 1,852 | 32.0% | |
| Systems and Technology | 3,855 | 244 | 4,098 | 333 | 8.1% | |
| Global Financing | 568 | 447 | 1,014 | 465 | 45.8% | |
| TOTAL REPORTABLE SEGMENTS | 23,035 | 1,870 | 24,905 | 4,663 | 18.7% | |
| Eliminations / Other | 215 | (1,870) | (1,655) | (401) | | |
| TOTAL IBM CONSOLIDATED | \$ 23,250 | \$ 0 | \$ 23,250 | \$ 4,262 | 18.3% | |

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

| (Dollars in Millions) | SIX-MONTHS 2010 | | | | |
|----------------------------------|------------------|---------------------|------------------|-------------------|-------------------|
| | External | Revenue Internal | Total | Pre-tax Income | Pre-tax Margin |
| SEGMENTS | | | | | |
| Global Technology Services | \$ 18,540 | \$ 652 | \$ 19,192 | \$ 2,387 | 12.4% |
| Y-T-Y Change | 3.8% | -4.7% | 3.5% | -4.9% | |
| Global Business Services | 8,893 | 400 | 9,293 | 1,128 | 12.1% |
| Y-T-Y Change | 1.8% | -12.2% | 1.1% | -0.1% | |
| Software | 10,296 | 1,448 | 11,743 | 4,040 | 34.4% |
| Y-T-Y Change | 6.1% | 18.0% | 7.4% | 26.8% | |
| Systems and Technology | 7,370 | 376 | 7,746 | 51 | 0.7% |
| Y-T-Y Change | 4.1% | -10.5% | 3.2% | -85.9% | |
| Global Financing | 1,081 | 834 | 1,916 | 890 | 46.5% |
| Y-T-Y Change | -5.6% | -0.3% | -3.4% | 7.9% | |
| TOTAL REPORTABLE SEGMENTS | 46,181 | 3,710 | 49,891 | 8,496 | 17.0% |
| Y-T-Y Change | 3.7% | 2.4% | 3.6% | 6.0% | |
| Eliminations / Other | 400 | (3,710) | (3,310) | (406) | |
| TOTAL IBM CONSOLIDATED | \$ 46,581 | \$ 0 | \$ 46,581 | \$ 8,090 | 17.4% |
| Y-T-Y Change | 3.6% | | 3.6% | 9.6% | |

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| (Dollars in Millions) | SIX-MONTHS 2009 | | | | |
|----------------------------------|------------------|---------------------|------------------|-------------------|-------------------|
| | External | Revenue Internal | Total | Pre-tax Income | Pre-tax Margin |
| SEGMENTS | | | | | |
| Global Technology Services | \$ 17,862 | \$ 685 | \$ 18,547 | \$ 2,509 | 13.5% |
| Global Business Services | 8,736 | 456 | 9,191 | 1,130 | 12.3% |
| Software | 9,705 | 1,227 | 10,933 | 3,186 | 29.1% |
| Systems and Technology | 7,083 | 420 | 7,503 | 361 | 4.8% |
| Global Financing | 1,146 | 836 | 1,982 | 825 | 41.6% |
| TOTAL REPORTABLE SEGMENTS | 44,533 | 3,624 | 48,156 | 8,011 | 16.6% |
| Eliminations / Other | 429 | (3,624) | (3,195) | (627) | |
| TOTAL IBM CONSOLIDATED | \$ 44,962 | \$ 0 | \$ 44,962 | \$ 7,385 | 16.4% |

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ATTACHMENT II

