

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**  
(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 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](http://www.ibm.com)) contains a significant amount of information about IBM, including financial and other information for investors ([www.ibm.com/investor/](http://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

**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.

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### **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

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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.

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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.

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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

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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](http://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](http://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).

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## 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
<b>REVENUE</b>						
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%	