

INTERNATIONAL BUSINESS MACHINES CORP
Form 8-K
July 17, 2013

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 17, 2013**

(Date of earliest event reported)

INTERNATIONAL BUSINESS MACHINES CORPORATION

(Exact name of registrant as specified in its charter)

New York
(State of Incorporation)

1-2360
(Commission File Number)

13-0871985
(IRS employer Identification No.)

ARMONK, NEW YORK
(Address of principal executive offices)

10504
(Zip Code)

914-499-1900
(Registrant's telephone number)

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

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- o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operations and Financial Condition.

The registrant's press release dated July 17, 2013, regarding its financial results for the periods ended June 30, 2013, including consolidated financial statements for the periods ended June 30, 2013, 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 17, 2013, as well as certain reconciliation and other information (Non-GAAP Supplemental Materials) for information in Attachment I (press release), Attachment II (slides) and in Mr. Loughridge's presentation. All of the information in Attachment I and II is hereby filed.

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

SIGNATURE

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

Date: July 17, 2013

By:	/s/ James J. Kavanaugh
James J. Kavanaugh	Vice President and Controller

IBM REPORTS 2013 SECOND-QUARTER RESULTS

RAISES 2013 OPERATING EPS EXPECTATION BY \$0.20 to \$16.90,

EXCLUDING \$1 BILLION SECOND-QUARTER WORKFORCE REBALANCING CHARGE

- **GAAP Results:**

- Diluted EPS: \$2.91, down 13 percent;
- Net income: \$3.2 billion, down 17 percent;
- Gross profit margin: 48.7 percent, up 1.0 points;

- **Operating(non-GAAP) Results**, excluding workforce rebalancing charges (most indicative of operational trajectory):

- Diluted EPS: \$3.91, up 8 percent, excluding workforce rebalancing charges;
- Net income: \$4.3 billion, up 3 percent, excluding workforce rebalancing charges;
- Gross profit margin: 49.7 percent, up 1.4 points;

- **2013 full-year operating (non-GAAP) EPS expectations** excluding \$1 billion second-quarter workforce rebalancing charge: up \$0.20 to at least \$16.90;

- **Operating (non-GAAP) Results**, including workforce rebalancing charges:

- Diluted EPS: \$3.22, down 8 percent; including workforce rebalancing charges;
- Net income: \$3.6 billion, down 12 percent; including workforce rebalancing charges;
- Gross profit margin: 49.7 percent, up 1.4 points;

- **2013 full-year all in operating (non-GAAP) EPS expectations**, including \$1 billion second-quarter workforce rebalancing charge: down \$0.45 to at least \$16.25, driven by reduction in anticipated second-half gains and \$0.20 operating improvement;
- **Revenue**: \$24.9 billion, down 3 percent, down 1 percent adjusting for currency;
- Software revenue up 4 percent, up 5 percent adjusting for currency;
- Key branded middleware up 9 percent; up 10 percent adjusting for currency;
- Services revenue down 4 percent, down 1 percent adjusting for currency;
- Global Business Services revenue down 1 percent, up 2 percent adjusting for currency;
- Services backlog of \$141 billion, up 3 percent, up 7 percent adjusting for currency;
- Systems and Technology revenue down 12 percent, down 11 percent adjusting for currency;
- System z mainframe revenue up 10 percent; up 11 percent adjusting for currency;
- Growth markets revenue flat, up 1 percent adjusting for currency;
- Business analytics revenue up 11 percent;
- Smarter Planet revenue up more than 25 percent in first half;
- Cloud revenue up more than 70 percent in first half;

ARMONK, N.Y., July 17, 2013 . . . IBM (NYSE: IBM) today announced second-quarter 2013 diluted earnings of \$2.91 per share, compared with diluted earnings of \$3.34 per share in the second quarter of 2012, a decrease of 13 percent. Operating (non-GAAP) diluted earnings were \$3.22 per share, including workforce rebalancing charges, compared with operating diluted earnings of \$3.51 per share in the second quarter of 2012, a decrease of 8 percent. Operating (non-GAAP) diluted earnings per share were \$3.91, an increase of 8 percent, excluding the impact of workforce rebalancing charges.

Second-quarter net income was \$3.2 billion compared with \$3.9 billion in the second quarter of 2012, a decrease of 17 percent. Operating (non-GAAP) net income

was \$3.6 billion, including workforce rebalancing charges, compared with \$4.1 billion in the second quarter of 2012, a decrease of 12 percent. Operating (non-GAAP) net income, excluding the impact of workforce rebalancing, was \$4.3 billion, an increase of 3 percent.

Total revenues for the second quarter of 2013 of \$24.9 billion were down 3 percent (down 1 percent, adjusting for currency) from the second quarter of 2012.

In the second quarter, we delivered strong performance in our higher-value software and mainframe businesses and again significantly increased our services backlog on growth in new business, said Ginni Rometty, IBM chairman, president and chief executive officer.

Going forward, we will continue investing in our strategic growth initiatives, acquiring and divesting capabilities, re-balancing skills and taking action in the areas that are not performing. We expect continued improvement through the second half of the year and remain confident that we will achieve our increased 2013 operating EPS expectation of at least \$16.90, excluding the \$1 billion workforce rebalancing charge in the second quarter.

Second-Quarter GAAP Operating (non-GAAP) Reconciliation

Second-quarter operating (non-GAAP) diluted earnings exclude \$0.31 per share of charges: \$0.15 per share for the amortization of purchased intangible assets and other acquisition-related charges, and \$0.16 per share for retirement-related charges driven by changes to plan assets and liabilities primarily related to market performance.

Full-Year 2013 Expectations

The company said that a substantial second-half gain that it was expecting in its prior view of earnings per share will not likely be achieved the end of 2013. As a result, the company updated its prior full-year EPS expectations, including the impact of a second-quarter \$1 billion workforce rebalancing charge, to at least \$16.25, with the net impact of \$0.45 driven by the elongated discussions for its larger divestiture project. IBM's full-year 2013 EPS expectations are as follows:

Full-year GAAP diluted earnings per share expectations are at least \$15.08. Operating (non-GAAP) diluted earnings per share expectations are being raised to at least \$16.90, excluding the second-quarter \$1 billion workforce rebalancing charge. Operating (non-GAAP) earnings per share expectations are at least \$16.25, including the second-quarter \$1 billion workforce rebalancing charge.

The 2013 operating (non-GAAP) earnings expectations exclude \$1.17 per share of charges for amortization of purchased intangible assets, other acquisition-related charges, and retirement-related charges.

Geographic Regions

The Americas' second-quarter revenues were \$10.7 billion, a decrease of 3 percent (down 3 percent, adjusting for currency) from the 2012 period. Revenues from Europe/Middle East/Africa were flat at \$7.8 billion (down 1 percent adjusting for currency). Asia-Pacific revenues decreased 8 percent (flat, adjusting for currency) to \$5.8 billion. OEM revenues were \$538 million, up 5 percent (up 6 percent adjusting for currency) compared with the 2012 second quarter.

Growth Markets

Revenues from the company's growth markets were flat (up 1 percent, adjusting for currency). Revenues in the BRIC countries—Brazil, Russia, India and China—were flat (up 1 percent, adjusting for currency).

Services

Global Technology Services segment revenues decreased 5 percent (down 2 percent, adjusting for currency) to \$9.5 billion. Global Business Services segment revenues were down 1 percent (up 2 percent, adjusting for currency) to \$4.6 billion.

Pre-tax income from Global Technology Services decreased 14 percent and pre-tax margin decreased to 15.4 percent. Pre-tax income from Global Technology Services increased 3 percent and pre-tax margin increased to 19.0 percent, excluding the impact of workforce rebalancing. Global Business Services pre-tax income decreased

22 percent and pre-tax margin decreased to 13.0 percent. Global Business Services pre-tax income increased 2 percent and pre-tax margin increased to 17.9 percent, excluding the impact of workforce rebalancing.

The estimated services backlog at June 30 was \$141 billion, up 3 percent year over year at actual rates (up 7 percent, adjusting for currency).

Software

Revenues from the Software segment were \$6.4 billion, up 4 percent (up 5 percent, adjusting for currency) compared with the second quarter of 2012. Software pre-tax income decreased 2 percent and pre-tax margin decreased to 34.1 percent. Software pre-tax income increased 6 percent and pre-tax margin increased to 37.2 percent, excluding the impact of workforce rebalancing.

Revenues from IBM's key middleware products, which include WebSphere, Information Management, Tivoli, Social Workforce Solutions (formerly Lotus) and Rational products, were \$4.3 billion, up 9 percent (up 10 percent, adjusting for currency) versus the second quarter of 2012. Operating systems revenues of \$606 million were down 4 percent (down 2 percent, adjusting for currency) compared with the prior-year quarter.

Revenues from the WebSphere family of software products increased 9 percent year over year. Information Management software revenues increased 5 percent. Revenues from Tivoli software increased 13 percent. Revenues from Social Workforce Solutions increased 22 percent, and Rational software increased 12 percent.

Hardware

Revenues from the Systems and Technology segment totaled \$3.8 billion for the quarter, down 12 percent (down 11 percent, adjusting for currency) from the second quarter of 2012. Excluding Retail Store Solutions (RSS), revenues were down 8 percent (down 7 percent adjusting for currency). Systems and Technology pre-tax income decreased \$375 million. Systems and Technology pre-tax income decreased \$199 million, excluding the impact of workforce rebalancing.

Total systems revenues, excluding RSS, decreased 10 percent (down 9 percent, adjusting for currency). Revenues from Power Systems were down 25 percent compared with the 2012 period. Revenues from System x were down 11 percent. Revenues from System z mainframe server products increased 10 percent compared with the year-ago period. Total delivery of System z computing power, as measured in MIPS (millions of instructions per second), increased 23 percent. Revenues from System Storage decreased 7 percent. Revenues from Microelectronics OEM increased 6 percent.

Financing

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Global Financing segment revenues decreased 6 percent (down 4 percent, adjusting for currency) in the second quarter at \$487 million. Pre-tax income for the segment increased 4 percent to \$550 million, excluding the impact of workforce rebalancing, pre-tax income increased 5 percent to \$552 million.

Gross Profit

The company's total gross profit margin was 48.7 percent in the 2013 second quarter compared with 47.6 percent in the 2012 second-quarter period. Total operating (non-GAAP) gross profit margin was 49.7 percent in the 2013 second quarter compared with 48.2 percent in the 2012 second-quarter period, with increases in Global Technology Services, Global Business Services, Software and Global Financing.

Expense

Total expense and other income increased 12 percent to \$8.0 billion compared with the prior year period. Total expense and other income was \$7.0 billion, excluding the impact of workforce rebalancing. S,G&A expense of \$6.7 billion increased 14 percent year over year. S,G&A expense was \$5.7 billion, excluding the impact of workforce rebalancing. R,D&E expense of \$1.5 billion decreased 2 percent compared with the year-ago period. Intellectual property and custom development income decreased to \$247 million compared with \$289 million a year ago. Other (income) and expense was income of \$91 million compared with prior-year income of

\$132 million. Interest expense decreased to \$98 million compared with \$117 million in the prior year.

Total operating (non-GAAP) expense and other income increased 11 percent to \$7.8 billion compared with the prior-year period. Total operating (non-GAAP) expense and other income was \$6.8 billion, excluding the impact of workforce rebalancing. Operating (non-GAAP) S,G&A expense increased 14 percent to \$6.5 billion compared with the prior-year period. Operating (non-GAAP) S,G&A expense, excluding the impact of workforce rebalancing, was \$5.5 billion. Operating (non-GAAP) R,D&E expense of \$1.5 billion was down 4 percent compared with the year-ago period.

Pre-Tax Income

Pre-tax income decreased 20 percent to \$4.1 billion and pre-tax margin of 16.6 percent was down 3.4 points compared with the prior-year period. Operating (non-GAAP) pre-tax income decreased 16 percent to \$4.6 billion and pre-tax margin was 18.4 percent, down 2.7 points. Operating (non-GAAP) pre-tax income, excluding the impact of workforce rebalancing, was \$5.6 billion.

IBM's tax rate was 22.1 percent, down 2.7 points year over year; operating (non-GAAP) tax rate was 22.0 percent, down 3.0 points compared to the year-ago period.

Net income margin decreased 2.1 points to 12.9 percent. Total operating (non-GAAP) net income margin decreased 1.5 points to 14.4 percent. Total operating (non-GAAP) net income margin, excluding the impact of workforce rebalancing, was 17.4 percent.

The weighted-average number of diluted common shares outstanding in the second-quarter 2013 was 1.11 billion compared with 1.16 billion shares in the same period of 2012. As of June 30, 2013, there were 1.10 billion basic common shares outstanding.

Debt, including Global Financing, totaled \$34.1 billion, compared with \$33.3 billion at year-end 2012. From a management segment view, Global Financing debt totaled \$24.9 billion versus \$24.5 billion at year-end 2012, resulting in a debt-to-equity ratio of 7.2 to 1. Non-global financing debt totaled \$9.3 billion, an increase of \$0.5 billion since year-end 2012, resulting in a debt-to-capitalization ratio of 39.1 percent from 36.1 percent.

IBM ended the second-quarter 2013 with \$10.4 billion of cash on hand and generated free cash flow of \$2.7 billion, excluding Global Financing receivables, down approximately \$1.0 billion year over year. The company returned \$4.6 billion to shareholders through \$1.0 billion in dividends and \$3.6 billion of share repurchases.

Year-To-Date 2013 Results

Net income for the six months ended June 30, 2013 was \$6.3 billion compared with \$6.9 billion in the year-ago period, a decrease of 10 percent. Diluted earnings per share were \$5.60 compared with \$5.95 per diluted share for the 2012 period, a decrease of 6 percent. Revenues for the six-month period totaled \$48.3 billion, a decrease of 4 percent (down 2 percent, adjusting for currency) compared with \$50.5 billion for the six months of 2012.

Operating (non-GAAP) net income for the six months ended June 30, 2013 was \$7.0 billion compared with \$7.3 billion in the year-ago period, a decrease of 5 percent. Operating (non-GAAP) net income, excluding the impact of second-quarter workforce rebalancing charges, was \$7.7 billion. Operating (non-GAAP) diluted earnings per share were \$6.23 compared with \$6.29 per diluted share for the 2012 period, a decrease of 1 percent. Operating (non-GAAP) diluted earnings per share, excluding the impact of second-quarter workforce rebalancing charges, was \$6.90 per share, an increase of 8 percent.

Forward-Looking and Cautionary Statements

Except for the historical information and discussions contained herein, statements contained in this release may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on the company's current assumptions regarding future business.

and financial performance. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, including the following: a downturn in economic environment and corporate IT spending budgets; the company's failure to meet growth and productivity objectives, a failure of the company's innovation initiatives; risks from investing in growth opportunities; failure of the company's intellectual property portfolio to prevent competitive offerings and the failure of the company to obtain necessary licenses; cybersecurity and data privacy considerations; fluctuations in financial results and purchases, impact of local legal, economic, political and health conditions; adverse effects from environmental matters, tax matters and the company's pension plans; ineffective internal controls; the company's use of accounting estimates; the company's ability to attract and retain key personnel and its reliance on critical skills; impacts of relationships with critical suppliers and business with government clients; currency fluctuations and customer financing risks; impact of changes in market liquidity conditions and customer credit risk on receivables; reliance on third party distribution channels; the company's ability to successfully manage acquisitions and alliances; risk factors related to IBM securities; and other risks, uncertainties and factors discussed in the company's Form 10-Q, Form 10-K and in the company's other filings with the U.S. Securities and Exchange Commission (SEC) or in materials incorporated therein by reference. Any forward-looking statement in this release speaks only as of the date on which it is made. The company assumes no obligation to update or revise any forward-looking statements.

Presentation of Information in this Press Release

In an effort to provide investors with additional information regarding the company's results as determined by generally accepted accounting principles (GAAP), the company has also disclosed in this press release the following non-GAAP information which management believes provides useful information to investors:

IBM results and expectations

- presenting operating (non-GAAP) earnings per share amounts and related income statement items;
- presenting non-global financing debt-to-capitalization ratio;
- adjusting for free cash flow;
- adjusting for currency (i.e., at constant currency);
- adjusting for the divestiture of RSS;
- adjusting for workforce rebalancing.

The rationale for management's use of non-GAAP measures is included as part of the supplemental 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 Supplemental Materials) to the Form 8-K that includes this press release and is being submitted today to the SEC.

Conference Call and Webcast

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IBM's regular quarterly earnings conference call is scheduled to begin at 4:30 p.m. EDT, today. The Webcast may be accessed via a link at <http://www.ibm.com/investor/events/2q13.phtml>. Presentation charts will be available 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,		
	2013	2012	Percent Change	2013	2012	Percent Change
REVENUE						
Global Technology Services	\$ 9,536	\$ 9,995	-4.6%	\$ 19,140	\$ 20,031	-4.4%
Gross profit margin	37.8%	36.3%		37.3%	35.8%	
Global Business Services	4,606	4,667	-1.3%	9,091	9,304	-2.3%
Gross profit margin	31.2%	30.7%		29.9%	29.4%	
Software	6,423	6,171	4.1%	11,995	11,770	1.9%
Gross profit margin	88.8%	88.4%		88.1%	87.7%	
Systems and Technology	3,758	4,259	-11.8%	6,864	8,008	-14.3%
Gross profit margin	36.7%	38.3%		34.7%	36.4%	
Global Financing	487	517	-5.8%	985	1,006	-2.1%
Gross profit margin	46.3%	46.0%		46.0%	48.3%	
Other	115	175	-34.2%	257	336	-23.7%
Gross profit margin	-190.5%	-60.0%		-172.8%	-67.1%	
TOTAL REVENUE	24,924	25,783	-3.3%	48,332	50,456	-4.2%
GROSS PROFIT	12,132	12,281	-1.2%	22,810	23,400	-2.5%
Gross margin	48.7%	47.6%		47.2%	46.4%	
EXPENSE AND OTHER INCOME						
S,G&A	6,680	5,837	14.4%	12,257	11,723	4.6%
Expense to revenue	26.8%	22.6%		25.4%	23.2%	
R,D&E	1,548	1,587	-2.4%	3,193	3,188	0.2%
Expense to revenue	6.2%	6.2%		6.6%	6.3%	
Intellectual property and custom development income	(247)	(289)	-14.5%	(430)	(545)	-21.0%
Other (income) and expense	(91)	(132)	-31.0%	(151)	(190)	-20.4%
Interest expense	98	117	-16.1%	192	226	-15.3%
TOTAL EXPENSE AND OTHER INCOME	7,988	7,120	12.2%	15,060	14,403	4.6%
Expense to revenue	32.0%	27.6%		31.2%	28.5%	
INCOME BEFORE INCOME TAXES	4,144	5,161	-19.7%	7,750	8,997	-13.9%

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Pre-tax margin	16.6%	20.0%	16.0%	17.8%		
Provision for income taxes	918	1,280	-28.3%	1,492	2,049	-27.2%
Effective tax rate	22.1%	24.8%	19.2%	22.8%		
NET INCOME	\$ 3,226	\$ 3,881	-16.9%	\$ 6,258	\$ 6,948	-9.9%
Net income margin	12.9%	15.1%	12.9%	13.8%		
EARNINGS PER SHARE OF COMMON STOCK:						
ASSUMING DILUTION	\$ 2.91	\$ 3.34	-12.9%	\$ 5.60	\$ 5.95	-5.9%
BASIC	\$ 2.93	\$ 3.38	-13.3%	\$ 5.65	\$ 6.02	-6.1%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUT-STANDING (M s):						
ASSUMING DILUTION	1,109.4	1,161.9	1,116.7	1,168.1		
BASIC	1,100.9	1,149.0	1,107.3	1,154.1		

INTERNATIONAL BUSINESS MACHINES CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

(Dollars in Millions)	At June 30, 2013	At December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 9,558	\$ 10,412
Marketable securities	799	717
Notes and accounts receivable - trade (net of allowances of \$258 in 2013 and \$255 in 2012)	10,277	10,667
Short-term financing receivables (net of allowances of \$279 in 2013 and \$288 in 2012)	16,661	18,038
Other accounts receivable (net of allowances of \$25 in 2013 and \$17 in 2012)	1,898	1,873
Inventories, at lower of average cost or market:		
Finished goods	482	475
Work in process and raw materials	1,906	1,812
Total inventories	2,389	2,287
Deferred taxes	1,584	1,415
Prepaid expenses and other current assets	4,746	4,024
Total Current Assets	47,911	49,433
Property, plant and equipment	39,552	40,501
Less: Accumulated depreciation	26,196	26,505
Property, plant and equipment - net	13,356	13,996
Long-term financing receivables (net of allowances of \$64 in 2013 and \$66 in 2012)	11,828	12,812
Prepaid pension assets	922	945
Deferred taxes	4,150	3,973
Goodwill	28,846	29,247
Intangible assets - net	3,418	3,787
Investments and sundry assets	4,721	5,021
Total Assets	\$ 115,153	\$ 119,213
LIABILITIES AND EQUITY		
Current Liabilities:		
Taxes	\$ 4,708	\$ 4,948
Short-term debt	7,830	9,181
Accounts payable	6,821	7,952
Compensation and benefits	4,223	4,745
Deferred income	12,241	11,952
Other accrued expenses and liabilities	5,214	4,847
Total Current Liabilities	41,037	43,625

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Long-term debt	26,292	24,088
Retirement and nonpension postretirement benefit obligations	17,962	20,418
Deferred income	4,166	4,491
Other liabilities	7,812	7,607
Total Liabilities	97,269	100,229
Equity:		
IBM Stockholders' Equity:		
Common stock	50,886	50,110
Retained earnings	121,883	117,641
Treasury stock at cost	(129,239)	(123,131)
Accumulated other comprehensive income/(loss)	(25,774)	(25,759)
Total IBM stockholders' equity	17,756	18,860
Noncontrolling interests	127	124
Total Equity	17,883	18,984
Total Liabilities and Equity	\$ 115,153	\$ 119,213

INTERNATIONAL BUSINESS MACHINES CORPORATION

CASH FLOW ANALYSIS

(Unaudited)

(Dollars in Millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net Cash from Operating Activities per GAAP:	\$ 3,175	\$ 4,435	\$ 7,197	\$ 8,726
Less: the change in Global Financing (GF) Receivables	(450)	(507)	1,147	918
Net Cash from Operating Activities (Excluding GF Receivables)	3,625	4,942	6,051	7,809
Capital Expenditures, Net	(939)	(1,278)	(1,668)	(2,279)
Free Cash Flow (Excluding GF Receivables)	2,686	3,664	4,382	5,529
Acquisitions	(121)	(606)	(179)	(1,925)
Divestitures	2	13	12	13
Dividends	(1,048)	(978)	(1,996)	(1,848)
Share Repurchase	(3,552)	(2,988)	(6,145)	(6,002)
Non-GF Debt	922	933	205	1,590
Other (includes GF Receivables, and GF Debt)	(524)	(1,187)	2,949	1,907
Change in Cash, Cash Equivalents and Short-term Marketable Securities	\$ (1,635)	\$ (1,148)	\$ (772)	\$ (736)

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

(Dollars in Millions)	SECOND-QUARTER 2013				-Normalized*-		
	External	Revenue Internal	Total	Pre-tax Income/(Loss)	Pre-tax Margin	Pre-tax Income/(Loss)	Pre-tax Margin
SEGMENTS							
Global Technology Services	\$ 9,536	\$ 292	\$ 9,828	\$ 1,514	15.4%	\$ 1,866	19.0%
Y-T-Y change	-4.6%	0.3%	-4.5%	-13.8%		2.7%	
Global Business Services	4,606	188	4,795	623	13.0%	856	17.9%
Y-T-Y change	-1.3%	4.5%	-1.1%	-22.4%		1.9%	
Software	6,423	738	7,161	2,443	34.1%	2,662	37.2%
Y-T-Y change	4.1%	-4.9%	3.1%	-2.0%		5.6%	
Systems and Technology	3,758	135	3,893	(141)	-3.6%	62	1.6%
Y-T-Y change	-11.8%	-15.0%	-11.9%	-160.2%		-76.3%	
Global Financing	487	575	1,061	550	51.8%	552	52.0%
Y-T-Y change	-5.8%	11.6%	2.9%	4.2%		4.5%	
TOTAL REPORTABLE SEGMENTS	\$ 24,809	\$ 1,928	\$ 26,737	\$ 4,989	18.7%	\$ 5,998	22.4%
Y-T-Y change	-3.1%	0.4%	-2.9%	-14.2%		0.5%	
Eliminations / Other	115	(1,928)	(1,813)	(846)		(844)	
TOTAL IBM CONSOLIDATED	\$ 24,924	\$ (0)	\$ 24,924	\$ 4,144	16.6 %	\$ 5,154	20.7 %
Y-T-Y change	-3.3%		-3.3%	-19.7%		-3.0%	

*Normalized for second-quarter workforce rebalancing charges

SECOND-QUARTER 2012

(Dollars in Millions)	External	Revenue Internal	Total	Pre-tax Income/(Loss)	Pre-tax Margin
SEGMENTS					
Global Technology Services	\$ 9,995	\$ 291	\$ 10,286	\$ 1,757	17.1%
Global Business Services	4,667	180	4,847	803	16.6%
Software	6,171	776	6,946	2,493	35.9%
Systems and Technology	4,259	159	4,418	234	5.3%

Global Financing	517	515	1,032	528	51.1%
TOTAL REPORTABLE SEGMENTS	\$ 25,608	\$ 1,921	\$ 27,529	\$ 5,814	21.1%
Eliminations / Other	175	(1,921)	(1,746)	(653)	
TOTAL IBM CONSOLIDATED	\$ 25,783	\$ (0)	\$ 25,783	\$ 5,161	20.0%

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

(Dollars in Millions)	SIX-MONTHS 2013				-Normalized*-		
	External	Revenue Internal	Total	Pre-tax Income/ (Loss)	Pre-tax Margin	Pre-tax Income/ (Loss)	Pre-tax Margin
SEGMENTS							
Global Technology Services	\$ 19,140	\$ 540	\$ 19,680	\$ 3,099	15.7%	\$ 3,451	17.5%
Y-T-Y change	-4.4%	-7.6%	-4.5%	-4.3%		4.6%	
Global Business Services	9,091	368	9,459	1,326	14.0%	1,559	16.5%
Y-T-Y change	-2.3%	1.5%	-2.2%	-5.6%		8.2%	
Software	11,995	1,569	13,563	4,457	32.9%	4,676	34.5%
Y-T-Y change	1.9%	-2.9%	1.3%	0.4%		4.7%	
Systems and Technology	6,864	255	7,118	(546)	-7.7%	(343)	-4.8%
Y-T-Y change	-14.3%	-17.7%	-14.4%	NM		NM	
Global Financing	985	1,116	2,101	1,088	51.8%	1,090	51.9%
Y-T-Y change	-2.1%	11.6%	4.7%	4.6%		4.8%	
TOTAL REPORTABLE SEGMENTS							
	\$ 48,075	\$ 3,847	\$ 51,922	\$ 9,425	18.2%	\$ 10,433	20.1%
Y-T-Y change	-4.1%	-0.6%	-3.8%	-8.0%		0.3%	
Eliminations / Other	257	(3,847)	(3,590)	(1,675)		(1,673)	
TOTAL IBM CONSOLIDATED							
	\$ 48,332	\$ (0)	\$ 48,332	\$ 7,750	16.0%	\$ 8,760	18.1%
Y-T-Y change	-4.2%		-4.2%	-13.9%		-4.3%	

*Normalized for second-quarter workforce rebalancing charges

NM - Not Meaningful

SEGMENTS

Global Technology Services	\$ 20,031	\$ 584	\$ 20,615	\$ 3,237	15.7%
Global Business Services	9,304	363	9,667	1,404	14.5%

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Software	11,770	1,615	13,386	4,438	33.2%
Systems and Technology	8,008	309	8,317	130	1.6%
Global Financing	1,006	1,000	2,006	1,040	51.8%
TOTAL REPORTABLE SEGMENTS	\$ 50,120	\$ 3,872	\$ 53,991	\$ 10,248	19.0%
Eliminations / Other	336	(3,872)	(3,535)	(1,252)	
TOTAL IBM CONSOLIDATED	\$ 50,456	\$ (0)	\$ 50,456	\$ 8,997	17.8%

INTERNATIONAL BUSINESS MACHINES CORPORATION

U.S. GAAP TO OPERATING RESULTS RECONCILIATION

(Unaudited; Dollars in millions except per share amounts)

	SECOND-QUARTER 2013			
	GAAP	Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$ 12,132	\$ 91	\$ 156	\$ 12,379
Gross Profit Margin	48.7%	0.4Pts	0.6Pts	49.7%
S,G&A	6,680	(91)	(93)	6,496
R,D&E	1,548	0	(13)	1,535
Other (Income) & Expense	(91)	(0)	0	(91)
Total Expense & Other (Income)	7,988	(91)	(106)	7,791
Pre-Tax Income	4,144	182	262	4,588
Pre-Tax Income Margin	16.6%	0.7Pts	1.1Pts	18.4%
Provision for Income Taxes***	918	9	82	1,009
Effective Tax Rate	22.1%	-0.7Pts	0.6Pts	22.0%
Net Income	3,226	173	180	3,579
Net Income Margin	12.9%	0.7Pts	0.7Pts	14.4%
Diluted Earnings Per Share	\$ 2.91	\$ 0.15	\$ 0.16	\$ 3.22

	SECOND-QUARTER 2012			
	GAAP	Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$ 12,281	\$ 93	\$ 66	\$ 12,440
Gross Profit Margin	47.6%	0.4Pts	0.3Pts	48.2%
S,G&A	5,837	(87)	(33)	5,717
R,D&E	1,587	0	5	1,592
Other (Income) & Expense	(132)	(1)	0	(133)
Total Expense & Other (Income)	7,120	(88)	(28)	7,004
Pre-Tax Income	5,161	181	94	5,436

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Pre-Tax Income Margin	20.0%	0.7Pts	0.4Pts	21.1%
Provision for Income Taxes***	1,280	49	30	1,359
Effective Tax Rate	24.8%	0.1Pts	0.1Pts	25.0%
Net Income	3,881	132	64	4,077
Net Income Margin	15.1%	0.5Pts	0.2Pts	15.8%
Diluted Earnings Per Share	\$ 3.34	\$ 0.11	\$ 0.06	\$ 3.51

* Includes amortization of acquired intangible assets and other acquisition-related charges.

** Includes retirement-related items driven by changes to plan assets and liabilities primarily related to market performance.

*** Tax impact on operating (non-GAAP) pre-tax income is calculated under the same accounting principles applied to the GAAP pre-tax income which employs an annual effective tax rate method to the results.

INTERNATIONAL BUSINESS MACHINES CORPORATION

U.S. GAAP TO OPERATING RESULTS RECONCILIATION

(Unaudited; Dollars in millions except per share amounts)

	GAAP	SIX-MONTHS 2013 Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$ 22,810	\$ 186	\$ 320	\$ 23,316
Gross Profit Margin	47.2%	0.4Pts	0.7Pts	48.2%
S,G&A	12,257	(183)	(197)	11,878
R,D&E	3,193	0	(29)	3,163
Other (Income) & Expense	(151)	(7)	0	(158)
Total Expense & Other (Income)	15,060	(190)	(226)	14,644
Pre-Tax Income	7,750	376	546	8,672
Pre-Tax Income Margin	16.0%	0.8Pts	1.1Pts	17.9%
Provision for Income Taxes***	1,492	63	162	1,717
Effective Tax Rate	19.2%	-0.1Pts	0.7Pts	19.8%
Net Income	6,258	313	384	6,955
Net Income Margin	12.9%	0.6Pts	0.8Pts	14.4%
Diluted Earnings Per Share	\$ 5.60	\$ 0.28	\$ 0.35	\$ 6.23

	GAAP	SIX-MONTHS 2012 Acquisition- Related Adjustments*	Retirement- Related Adjustments**	Operating (Non-GAAP)
Gross Profit	\$ 23,400	\$ 181	\$ 137	\$ 23,718
Gross Profit Margin	46.4%	0.4Pts	0.3Pts	47.0%
S,G&A	11,723	(171)	(69)	11,483
R,D&E	3,188	0	10	3,197
Other (Income) & Expense	(190)	(2)	0	(192)
Total Expense & Other (Income)	14,403	(172)	(60)	14,171
Pre-Tax Income	8,997	354	197	9,547
Pre-Tax Income Margin	17.8%	0.7Pts	0.4Pts	18.9%
Provision for Income Taxes***	2,049	96	60	2,205
Effective Tax Rate	22.8%	0.2Pts	0.2Pts	23.1%
Net Income	6,948	258	137	7,342
Net Income Margin	13.8%	0.5Pts	0.3Pts	14.6%
Diluted Earnings Per Share	\$ 5.95	\$ 0.22	\$ 0.12	\$ 6.29

* Includes amortization of acquired intangible assets and other acquisition-related charges.

** Includes retirement-related items driven by changes to plan assets and liabilities primarily related to market performance.

*** Tax impact on operating (non-GAAP) pre-tax income is calculated under the same accounting principles applied to the GAAP pre-tax income which employs an annual effective tax rate method to the results.

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