

INTERNATIONAL BUSINESS MACHINES CORP  
Form 8-K  
October 16, 2007

**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 16, 2007**  
(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:

- 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 16, 2007, regarding its financial results for the periods ended September 30, 2007, including consolidated financial statements for the periods ended September 30, 2007, 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 16, 2007, 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 Attachments I and II is hereby filed except for the following, which is furnished but not filed:

Press Release

The following statement on Page 2: Revenues decreased 6 percent excluding the year-to-year impact of the Printing System Division divestiture in June 2007.

Slides

On Slide 3 (3Q SUMMARY), under Weaker Performance, Difficult Compare on z the revenue information for Systems & Technology (i.e., Revenue (6%)).

On Slide 4 (Financial Summary), the following information:

- +8% excl. ASR interest exp.
- +11% excl. ASR interest exp.

On Slide 12 (Systems & Technology Segment), in the table at the top of the slide, the data in the columns entitled Yr/Yr and @CC for the row identified as Revenue w/o Printers .

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.

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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 16, 2007

By: /s/ Timothy S. Shaughnessy  
Timothy S. Shaughnessy  
Vice President and Controller

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**IBM REPORTS 2007 THIRD-QUARTER RESULTS**

- Diluted earnings of \$1.68 per share, up 16 percent as reported;
- Total revenues of \$24.1 billion, up 7 percent;
- Global Business Services revenues up 16 percent; pre-tax income up 29 percent;
- Global Technology Services revenues up 13 percent; pre-tax income up 26 percent;
- Highest overall Global Services revenue growth in four years.

ARMONK, N.Y., October 16, 2007 . . . IBM (NYSE: IBM) today announced third-quarter 2007 diluted earnings of \$1.68 per share from continuing operations compared with diluted earnings of \$1.45 per share in the third quarter of 2006, an increase of 16 percent as reported. Third-quarter income from continuing operations was \$2.4 billion compared with \$2.2 billion in the third quarter of 2006, an increase of 6 percent. Total revenues for the third quarter of 2007 of \$24.1 billion increased 7 percent (3 percent, adjusting for currency) from the third quarter of 2006.

Our outstanding services results this quarter enabled us to stay on track toward our objective of accelerated earnings per share growth through 2010, while we work through a transition in our hardware business, said Samuel J. Palmisano, IBM chairman, president and chief executive officer. Our year-to-date performance underscores the strength of major elements of our long-term roadmap, including revenue growth, margin expansion, and continued success in emerging market countries and in the integration of our acquisitions.

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From a geographic perspective, the Americas' third-quarter revenues were \$10.2 billion, an increase of 4 percent as reported (3 percent, adjusting for currency) from the 2006 period. Revenues from Europe/Middle East/Africa were \$8.1 billion, up 11 percent (4 percent, adjusting for currency). Asia-Pacific revenues increased 9 percent (6 percent, adjusting for currency) to \$4.9 billion. OEM revenues were \$890 million, down 12 percent compared with the 2006 third quarter.

Total Global Services revenues grew 14 percent (10 percent, adjusting for currency) the highest growth since third quarter of 2003 with strong performance in all geographic regions and business sectors. Global Business Services segment revenues, marked by significant growth in core consulting and application management services, increased 16 percent (12 percent, adjusting for currency) to \$4.6 billion. Global Technology Services segment revenues increased 13 percent (9 percent, adjusting for currency) to \$9.1 billion, benefiting from sales of new business to existing clients. IBM signed services contracts totaling \$11.8 billion, up 12 percent year over year, and ended the third quarter with an estimated services backlog, including Strategic Outsourcing, Business Transformation Outsourcing, Integrated Technology Services, Global Business Services and Maintenance, of \$116 billion, an increase of \$7 billion year to year.

Revenues from the Systems and Technology segment totaled \$4.9 billion for the quarter, down 10 percent (13 percent, adjusting for currency). Revenues decreased 6 percent excluding the year-to-year impact of the Printing System Division divestiture in June 2007. Systems and Technology revenues from the System p UNIX server products increased 6 percent compared with the 2006 period and revenues from the System x servers increased 6 percent. Faced with a difficult comparison, revenues from System z server products decreased 31 percent versus the year-ago period. Total delivery of System z computing power, which is measured in MIPS (millions of instructions per second), decreased 21 percent. Revenues from the System i servers decreased 21 percent. Revenues from System Storage increased 1 percent and revenues from Microelectronics decreased 15 percent.

Revenues from the Software segment were \$4.7 billion, an increase of 7 percent (3 percent, adjusting for currency) compared with the third quarter of 2006. Revenues from IBM's middleware products, which primarily include WebSphere, Information Management, Tivoli, Lotus and Rational products, were \$3.6 billion, up 6 percent versus the third quarter of 2006. Operating systems revenues of \$564 million increased 2 percent compared with the prior-year quarter.

For the WebSphere family of software products, which facilitate customers' ability to manage a wide variety of business processes using open standards to interconnect applications, data and operating systems, revenues increased 10 percent. Revenues for Information Management software, which enables clients to leverage information on demand, increased 9 percent. Revenues from Tivoli software, infrastructure software that enables clients to centrally manage networks including security and storage capability, increased 5 percent, and revenues for Lotus software, which allows collaborating and messaging by clients in real-time communication and knowledge management, increased 9 percent year over year. Revenues from Rational software, integrated tools to improve the processes of software development, increased 3 percent compared with the year-ago quarter.

Global Financing segment revenues increased 6 percent (2 percent, adjusting for currency) in the third quarter to \$623 million.

The company's total gross profit margin was 41.3 percent in the 2007 third quarter compared with 42.0 percent in the 2006 period.

Total expense and other income increased 6 percent to \$6.7 billion compared to \$6.3 billion in the prior-year period. SG&A expense increased 4 percent to \$5.3 billion. RD&E expense decreased 1 percent to \$1.5 billion compared with the year-ago period. Intellectual property and custom development income increased to \$270 million compared with \$242 million a year ago. Other (income) and expense contributed income of \$95 million in the third quarter of 2007 versus income of \$174 million in the third quarter of 2006. Interest expense increased to \$193 million compared with \$70 million in the prior-year period, primarily due to the increase in debt to finance the company's accelerated share repurchase agreements executed in the prior quarter.

IBM's effective tax rate in the third-quarter 2007 was 28.0 percent compared with 30.0 percent in the third quarter of 2006.

The weighted-average number of diluted common shares outstanding in the third-quarter 2007 was 1.41 billion compared with 1.53 billion shares in the same period of 2006. As of September 30, 2007, there were 1.38 billion basic common shares outstanding.

Debt, including Global Financing, totaled \$35.3 billion, compared with \$22.7 billion at year-end 2006. From a management segment view, Global Financing debt increased \$1.5 billion from year-end 2006 to a total of \$23.8 billion, resulting in a debt-to-equity ratio of 6.8 to 1. The non-global financing debt-to-capitalization ratio was 40.3 percent at the end of September 30, 2007 compared with 46.7 percent at the end of the second quarter, which reflects increased financial leverage associated with the accelerated share repurchase agreements. The cash balance was \$13.8 billion at the end of the third quarter.

#### **Year-To-Date 2007 Results**

Income from continuing operations for the nine months ended September 30, 2007 was \$6.5 billion compared with \$6.0 billion in the year-ago period. Diluted earnings per share from continuing operations were \$4.42 compared with \$3.81 per diluted share for the 2006 period. Revenues from continuing operations for the nine-month period totaled \$69.9 billion, an increase of 7 percent (4 percent, adjusting for currency) compared with \$65.2 billion for the nine months of 2006.



### **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. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, including the company's failure to continue to develop and market new and innovative products and services and to keep pace with technological change; competitive pressures; failure to obtain or protect intellectual property rights; fluctuations in revenues and purchases, and volatility of stock prices; the company's ability to attract and retain key personnel; adverse affects from tax matters; environmental matters; currency fluctuations and customer financing risks; customer credit risk on trade receivables; risks from investing in growth opportunities; the company's failure to maintain the adequacy of its internal controls; the company's use of certain estimates and assumptions; dependence on certain suppliers; changes in the financial or business condition of the company's distributors or resellers; the company's ability to successfully manage acquisitions and alliances; failure to have sufficient insurance; legal, political, health and economic conditions; 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. 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

- adjusting for revenues from the Printing System Division divestiture;
- 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/3q07](http://www.ibm.com/investor/3q07). Presentation charts will be available on the Web site prior to the Webcast.

**Financial Results Attached** (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,			Percent Change	Nine Months Ended September 30,			Percent Change
	2007	2006			2007	2006		
<b>REVENUE</b>								
Global Technology Services	\$ 9,093	\$ 8,058	12.8	%	\$ 26,106	\$ 23,732	10.0	%
Gross profit margin	30.6	% 30.2	%		29.9	% 29.7	%	
Global Business Services	4,586	3,959	15.9	%	13,108	11,746	11.6	%
Gross profit margin	22.9	% 22.8	%		23.7	% 22.6	%	
Systems and Technology	4,898	5,466	-10.4	%	14,520	14,900	-2.5	%
Gross profit margin	38.5	% 38.2	%		36.9	% 35.8	%	
Software	4,694	4,406	6.5	%	13,723	12,554	9.3	%
Gross profit margin	84.2	% 85.3	%		84.3	% 84.6	%	
Global Financing	623	587	6.1	%	1,834	1,744	5.1	%
Gross profit margin	44.6	% 48.6	%		47.2	% 50.8	%	
Other	225	141	59.3	%	630	491	28.4	%
Gross profit margin	2.7	% 13.6	%		11.2	% 9.4	%	
<b>TOTAL REVENUE</b>	<b>24,119</b>	<b>22,617</b>	<b>6.6</b>	<b>%</b>	<b>69,920</b>	<b>65,166</b>	<b>7.3</b>	<b>%</b>
<b>GROSS PROFIT</b>								
Gross profit margin	41.3	% 42.0	%		41.1	% 40.8	%	
<b>EXPENSE AND OTHER INCOME</b>								
S,G&A	5,324	5,121	4.0	%	16,044	14,639	9.6	%
Expense to revenue	22.1	% 22.6	%		22.9	% 22.5	%	
R,D&E	1,524	1,543	-1.2	%	4,568	4,520	1.1	%
Expense to revenue	6.3	% 6.8	%		6.5	% 6.9	%	
Intellectual property and custom development income	(270)	(242)	11.7	%	(721)	(659)	9.4	%
Other (income) and expense	(95)	(174)	-45.2	%	(528)	(616)	-14.3	%
Interest expense	193	70	177.9	%	396	207	91.1	%
<b>TOTAL EXPENSE AND OTHER INCOME</b>	<b>6,676</b>	<b>6,317</b>	<b>5.7</b>	<b>%</b>	<b>19,759</b>	<b>18,091</b>	<b>9.2</b>	<b>%</b>
Expense to revenue	27.7	% 27.9	%		28.3	% 27.8	%	
<b>INCOME FROM CONTINUING OPERATIONS</b>								
<b>BEFORE INCOME TAXES</b>								
Pre-tax margin	13.6	% 14.0	%		12.9	% 13.0	%	
Provision for income taxes	918	952	-3.6	%	2,534	2,551	-0.7	%
Effective tax rate	28.0	% 30.0	%		28.2	% 30.0	%	
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>\$ 2,362</b>	<b>\$ 2,222</b>	<b>6.3</b>	<b>%</b>	<b>\$ 6,467</b>	<b>\$ 5,952</b>	<b>8.7</b>	<b>%</b>
Net margin	9.8	% 9.8	%		9.2	% 9.1	%	
<b>DISCONTINUED OPERATIONS</b>								
Loss from discontinued operations	(1)	(0)			(1)	(0)		
<b>NET INCOME</b>	<b>\$ 2,361</b>	<b>\$ 2,222</b>	<b>6.3</b>	<b>%</b>	<b>\$ 6,466</b>	<b>\$ 5,952</b>	<b>8.6</b>	<b>%</b>

## INTERNATIONAL BUSINESS MACHINES CORPORATION

## COMPARATIVE FINANCIAL RESULTS

(Unaudited; Dollars in millions except per share amounts)

	Three Months Ended September 30,		Percent Change	Nine Months Ended September 30,		Percent Change
	2007	2006		2007	2006	
<b>EARNINGS/(LOSS)PER SHARE OF COMMON STOCK:</b>						
<b>ASSUMING DILUTION</b>						
CONTINUING OPERATIONS	\$ 1.68	\$ 1.45	15.9	% \$ 4.42	\$ 3.81	16.0
DISCONTINUED OPERATIONS	(0.00 )	(0.00 )		(0.00 )	(0.00 )	
<b>TOTAL</b>	<b>\$ 1.68</b>	<b>\$ 1.45</b>	<b>15.9</b>	<b>% \$ 4.42</b>	<b>\$ 3.81</b>	<b>16.0</b>
<b>BASIC</b>						
CONTINUING OPERATIONS	\$ 1.72	\$ 1.47	17.0	% \$ 4.50	\$ 3.87	16.3
DISCONTINUED OPERATIONS	(0.00 )	(0.00 )		(0.00 )	(0.00 )	
<b>TOTAL</b>	<b>\$ 1.72</b>	<b>\$ 1.47</b>	<b>17.0</b>	<b>% \$ 4.50</b>	<b>\$ 3.87</b>	<b>16.3</b>
<b>WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (M s)</b>						
ASSUMING DILUTION	1,405.8	1,534.3		1,463.1	1,560.5	
<b>BASIC</b>	<b>1,371.4</b>	<b>1,513.2</b>		<b>1,436.0</b>	<b>1,538.6</b>	

## INTERNATIONAL BUSINESS MACHINES CORPORATION

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

(Dollars in millions)	At September 30, 2007	At December 31, 2006	Percent Change	
<b>ASSETS</b>				
Cash, cash equivalents, and marketable securities	\$ 13,822	\$ 10,657	29.7	%
Receivables - net, inventories, prepaid expenses	32,766	34,003	-3.6	%
Plant, rental machines, and other property - net	14,836	14,440	2.7	%
Investments and other assets	47,184	44,134	6.9	%
<b>TOTAL ASSETS</b>	<b>\$ 108,609</b>	<b>\$ 103,234</b>	5.2	%
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>				
Short-term debt	\$ 16,546	\$ 8,902	85.9	%
Long-term debt	18,775	13,780	36.2	%
Total debt	35,322	22,682	55.7	%
Accounts payable, taxes, and accruals	28,464	31,189	-8.7	%
Other liabilities	24,277	20,857	16.4	%
<b>TOTAL LIABILITIES</b>	<b>88,063</b>	74,728	17.8	%
<b>STOCKHOLDERS EQUITY</b>	<b>20,546</b>	28,506	-27.9	%
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 108,609</b>	<b>\$ 103,234</b>	5.2	%

**INTERNATIONAL BUSINESS MACHINES CORPORATION**  
**SEGMENT DATA**  
(Unaudited)

**THIRD QUARTER 2007**

(Dollars in millions)	Revenue			Pre-tax Income (Loss)		Pre-tax
	External	Internal	Total	From	Continuing	Margin
				Operations		
<b>SEGMENTS</b>						
Global Technology Services	\$ 9,093	\$ 408	\$ 9,501	\$ 1,028		10.8 %
Y-T-Y Change	12.8	% -4.6	% 12.0	% 26.3		%
Global Business Services	4,586	276	4,862	521		10.7 %
Y-T-Y Change	15.9	% -18.0	% 13.2	% 28.6		%
Systems and Technology	4,898	236	5,134	361		7.0 %
Y-T-Y Change	-10.4	% -7.5	% -10.3	% -12.4		%
Software	4,694	571	5,265	1,283		24.4 %
Y-T-Y Change	6.5	% 2.0	% 6.0	% -1.5		%
Global Financing	623	348	970	339		34.9 %
Y-T-Y Change	6.1	% 3.2	% 5.1	% 1.1		%
<b>TOTAL REPORTABLE SEGMENTS</b>	<b>23,894</b>	<b>1,838</b>	<b>25,732</b>	<b>3,532</b>		<b>13.7 %</b>
Y-T-Y Change	6.3	% -4.1	% 5.5	% 8.1		%
Eliminations / Other	225	(1,838)	(1,613)	(252)		
<b>TOTAL IBM CONSOLIDATED</b>	<b>\$ 24,119</b>	<b>\$ 0</b>	<b>\$ 24,119</b>	<b>\$ 3,280</b>		<b>13.6 %</b>
Y-T-Y Change	6.6	%	6.6	% 3.3		%

**THIRD QUARTER 2006**

(Dollars in millions)	Revenue			Pre-tax Income (Loss)		Pre-tax
	External	Internal	Total	From	Continuing	Margin
				Operations		
<b>SEGMENTS</b>						
Global Technology Services	\$ 8,058	\$ 428	\$ 8,486	\$ 814		9.6 %
Global Business Services	3,959	337	4,295	405		9.4 %
Systems and Technology	5,466	255	5,721	413		7.2 %
Software	4,406	559	4,965	1,302		26.2 %
Global Financing	587	337	924	335		36.2 %
<b>TOTAL REPORTABLE SEGMENTS</b>	<b>22,476</b>	<b>1,916</b>	<b>24,391</b>	<b>3,268</b>		<b>13.4 %</b>
Eliminations / Other	141	(1,916)	(1,774)	(94)		
<b>TOTAL IBM CONSOLIDATED</b>	<b>\$ 22,617</b>	<b>\$ 0</b>	<b>\$ 22,617</b>	<b>\$ 3,174</b>		<b>14.0 %</b>

**INTERNATIONAL BUSINESS MACHINES CORPORATION**  
**SEGMENT DATA**  
(Unaudited)

NINE MONTHS 2007

(Dollars in millions)	Revenue			Pre-tax Income (Loss)		Pre-tax
	External	Internal	Total	From	Continuing	Margin
				Operations		
<b>SEGMENTS</b>						
Global Technology Services	\$ 26,106	\$ 1,243	\$ 27,348	\$ 2,497		9.1 %
Y-T-Y Change	10.0	% -6.5	% 9.1	% 2.1		%
Global Business Services	13,108	906	14,014	1,477		10.5 %
Y-T-Y Change	11.6	% -11.5	% 9.7	% 26.4		%
Systems and Technology	14,520	758	15,279	789		5.2 %
Y-T-Y Change	-2.5	% -6.0	% -2.7	% 35.7		%
Software	13,723	1,704	15,427	3,569		23.1 %
Y-T-Y Change	9.3	% 5.4	% 8.9	% 2.6		%
Global Financing	1,834	1,037	2,871	1,045		36.4 %
Y-T-Y Change	5.1	% -0.2	% 3.1	% -2.2		%
<b>TOTAL REPORTABLE SEGMENTS</b>	<b>69,291</b>	<b>5,648</b>	<b>74,939</b>	<b>9,376</b>		<b>12.5 %</b>
Y-T-Y Change	7.1	% -2.8	% 6.3	% 7.3		%
Eliminations / Other	630	(5,648)	(5,018)	(375)		
<b>TOTAL IBM CONSOLIDATED</b>	<b>\$ 69,920</b>	<b>\$ 0</b>	<b>\$ 69,920</b>	<b>\$ 9,001</b>		<b>12.9 %</b>
Y-T-Y Change	7.3	%	7.3	% 5.9		%

NINE MONTHS 2006

(Dollars in millions)	Revenue			Pre-tax Income (Loss)		Pre-tax
	External	Internal	Total	From	Continuing	Margin
				Operations		
<b>SEGMENTS</b>						
Global Technology Services	\$ 23,732	\$ 1,328	\$ 25,061	\$ 2,445		9.8 %
Global Business Services	11,746	1,023	12,769	1,168		9.1 %
Systems and Technology	14,900	807	15,706	582		3.7 %
Software	12,554	1,616	14,170	3,478		24.5 %
Global Financing	1,744	1,039	2,784	1,068		38.4 %
<b>TOTAL REPORTABLE SEGMENTS</b>	<b>64,676</b>	<b>5,814</b>	<b>70,490</b>	<b>8,741</b>		<b>12.4 %</b>
Eliminations / Other	491	(5,814)	(5,323)	(239)		
<b>TOTAL IBM CONSOLIDATED</b>	<b>\$ 65,166</b>	<b>\$ 0</b>	<b>\$ 65,166</b>	<b>\$ 8,503</b>		<b>13.0 %</b>









































































