

INTERNATIONAL BUSINESS MACHINES CORP
Form 8-K
April 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: **April 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))
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Item 2.02. Results of Operations and Financial Condition.

The registrant's press release dated April 19, 2010, regarding its financial results for the period ended March 31, 2010, including consolidated financial statements for the period ended March 31, 2010, is Attachment I of this Form 8-K. Attachment II are the slides for IBM's Chief Financial Officer Mark Loughridge's first quarter earnings presentation on April 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: April 19, 2010

By: /s/ James J. Kavanaugh

James J. Kavanaugh
Vice President and Controller

IBM REPORTS 2010 FIRST-QUARTER RESULTS

- Diluted earnings per share of \$1.97, up 16 percent;
- Revenue of \$22.9 billion, up 5 percent, flat adjusting for currency;
- Net income of \$2.6 billion, up 13 percent;
- Pre-tax income of \$3.5 billion, up 13 percent;
- Pre-tax margin of 15.4 percent, up 1 point;
- Gross profit margin of 43.6 percent, up 0.2 point;
- Free cash flow of \$1.4 billion, up approximately \$400 million;
- Software revenue up 11 percent;
- Systems and Technology revenue up 5 percent;
- Services revenue up 4 percent;
- Services signings of \$12.3 billion, down 2 percent;
- Consulting services signings up 18 percent;
- Strategic Outsourcing signings up 6 percent;
- Services backlog of \$134 billion, up \$8 billion year to year;
- Full-year 2010 earnings-per-share expectations raised to at least \$11.20.

ARMONK, N.Y., April 19, 2010 . . . IBM (NYSE: IBM) today announced first-quarter 2010 diluted earnings of \$1.97 per share compared with diluted earnings of \$1.70 per share in the first quarter of 2009, an increase of 16 percent.

First-quarter net income was \$2.6 billion compared with \$2.3 billion in the first quarter of 2009, an increase of 13 percent. Total revenues for the first quarter of 2010 of \$22.9 billion increased 5 percent (flat, adjusting for currency) from the first quarter of 2009.

In the first quarter, we drove significantly improved revenue growth rates from the fourth quarter across our businesses and geographies. We had strong results in strategic investment areas including growth markets, business analytics and Smarter Planet solutions, said Samuel J. Palmisano, IBM chairman, president and chief executive officer.

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Looking ahead, we are confident in our ability to grow revenue, and given our mix of higher-value business and productivity we will expand margins, grow profit, cash and EPS, and increase returns to shareholders. Thus, we expect full-year 2010 diluted earnings per share of at least \$11.20.

The company also said it expects constant-currency revenue growth for IBM and for its total services, software and hardware businesses in the second quarter.

From a geographic perspective, the Americas' first-quarter revenues were \$9.5 billion, an increase of 2 percent (flat, adjusting for currency) from the 2009 period. Revenues from Europe/Middle East/Africa were \$7.6 billion, up 5 percent (down 2 percent, adjusting for currency).

Asia-Pacific revenues increased 10 percent (1 percent, adjusting for currency) to \$5.3 billion. OEM revenues were \$543 million, up 18 percent compared with the 2009 first quarter. Revenues from the company's growth markets organization increased 20 percent (8 percent, adjusting for currency) and represented 19 percent of geographic revenues.

Total Global Services revenues increased 4 percent (down 2 percent, adjusting for currency). Global Technology Services segment revenues increased 6 percent (flat, adjusting for currency) to \$9.3 billion. Global Business Services segment revenues were flat (down 5 percent, adjusting for currency) at \$4.4 billion.

IBM signed services contracts totaling \$12.3 billion, at actual rates, a decrease of 2 percent (7 percent, adjusting for currency), including 13 contracts greater than \$100 million.

Application Management signings decreased 23 percent, or approximately \$700 million. Without the impact of this decline, total services signings would have been up 4 percent year to year.

Signings in Transactional services (Consulting, Integrated Technology Services and Application Management Systems Integration) were \$5.5 billion, a decrease of

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1 percent (6 percent, adjusting for currency). Total Outsourcing services (Strategic Outsourcing and Application Management Outsourcing) signings decreased 3 percent (8 percent, adjusting for currency) to \$6.8 billion.

Consulting services signings were up 18 percent, with 25 percent of signings related to Smarter Planet and Business Analytics. Strategic Outsourcing signings increased 6 percent.

The estimated services backlog at March 31 was \$134 billion at actual rates compared with \$126 billion in the first-quarter 2009.

Revenues from the Software segment were \$5.0 billion, an increase of 11 percent (5 percent, adjusting for currency) compared with the first quarter of 2009. Revenues from IBM's key middleware products, which include WebSphere, Information Management, Tivoli, Lotus and Rational products, were \$2.8 billion, an increase of 13 percent (8 percent, adjusting for currency) versus the first quarter of 2009. Operating systems revenues of \$499 million increased 1 percent (down 3 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 13 percent year over year. Revenues from Information Management software, which enables clients to integrate, manage and use information to gain business value, increased 11 percent. Revenues from Tivoli software, which helps clients manage technology and business assets by providing visibility, control and automation across the organization, increased 23 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, increased 1 percent. Revenues from Rational software, which supports software development for both IT and embedded system solutions, increased 7 percent.

Revenues from the Systems and Technology segment totaled \$3.4 billion for the quarter, up 5 percent (2 percent, adjusting for currency) from the first quarter of 2009. Systems revenues increased 4 percent (1 percent, adjusting for currency). Revenues from the System x increased 36 percent. Revenues from POWER Systems decreased 17 percent compared with the 2009 period. Revenues from System z mainframe server products decreased 17 percent compared with the year-ago period. Total delivery of System z computing power, as measured in MIPS (millions of instructions per second), decreased 19 percent. Revenues from System Storage increased 11 percent, and revenues from Retail Store Solutions increased 38 percent. Revenues from Microelectronics OEM increased 16 percent.

Global Financing segment revenues decreased 7 percent (12 percent, adjusting for currency) in the first quarter to \$537 million.

The company's total gross profit margin was 43.6 percent in the 2010 first quarter compared with 43.4 percent in the 2009 first-quarter period, led by improving margins in both services segments and software.

Total expense and other income increased 2 percent to \$6.5 billion compared with the prior-year period. In each period, the company had gains from the sale of business operations that were largely offset by workforce rebalancing charges. SG&A expense of \$5.7 billion increased 8 percent year over year and included workforce rebalancing charges of approximately \$560 million, the majority of which was in Europe and Asia, compared with prior-year expense of \$5.3 billion that included \$265 million of workforce rebalancing charges. RD&E expense of \$1.5 billion increased 2 percent compared with the year-ago period. Intellectual property and custom development income decreased to \$261 million compared with \$268 million a year ago. Other (income) and expense was income of \$545 million including a gain of \$591 million from the sale

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of Product Lifecycle Management operations, compared with prior-year income of \$304 million that included \$298 million from the sale of certain elements of the company's logistics process operations. Interest expense decreased to \$82 million compared with \$136 million in the prior year.

IBM's tax rate in the first-quarter 2010 was 26.0 percent compared with 26.5 percent in the first quarter of 2009.

The weighted-average number of diluted common shares outstanding in the first-quarter 2010 was 1.32 billion compared with 1.35 billion shares in the same period of 2009. As of March 31, 2010, there were 1.28 billion basic common shares outstanding.

Debt, including Global Financing, totaled \$26.3 billion, compared with \$26.1 billion at year-end 2009. From a management segment view, Global Financing debt totaled \$22.2 billion versus \$22.4 billion at year-end 2009, resulting in a debt-to-equity ratio of 7.0 to 1. Non-global financing debt totaled \$4.1 billion, an increase of \$357 million since year-end 2009, resulting in a debt-to-capitalization ratio of 17.7 percent from 16.0 percent.

IBM ended the first-quarter 2010 with \$14.0 billion of cash on hand and generated free cash flow of \$1.4 billion, up approximately \$400 million year over year. The company returned \$4.7 billion to shareholders through \$0.7 billion in dividends and \$4.0 billion of share repurchases. The balance sheet remains strong, and the company is well positioned to support its full-year objectives.

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 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. 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

- presenting non-global financing debt-to-capitalization ratio;
- adjusting for free cash flow;

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- 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 first-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/1q10. 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 March 31,		Percent Change
	2010	2009	
REVENUE			
Global Technology Services	\$ 9,306	\$ 8,754	6.3%
Gross profit margin	34.4%	33.9%	
Global Business Services	4,410	4,397	0.3%
Gross profit margin	27.3%	26.5%	
Software	5,018	4,539	10.6%
Gross profit margin	84.6%	84.2%	
Systems and Technology	3,385	3,228	4.9%
Gross profit margin	33.6%	34.0%	
Global Financing	537	578	-7.1%
Gross profit margin	49.8%	45.9%	
Other	200	213	-6.5%
Gross profit margin	-35.7%	52.7%	
TOTAL REVENUE	22,857	21,711	5.3%
GROSS PROFIT	9,976	9,431	5.8%
Gross profit margin	43.6%	43.4%	
EXPENSE AND OTHER INCOME			
S,G&A	5,677	5,264	7.8%
Expense to revenue	24.8%	24.2%	
R,D&E	1,509	1,480	2.0%
Expense to revenue	6.6%	6.8%	

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Intellectual property and custom development income	(261)	(268)	-2.4%
Other (income) and expense	(545)	(304)	79.6%
Interest expense	82	136	-39.6%
TOTAL EXPENSE AND OTHER INCOME	6,462	6,309&nbs	