

INTERNATIONAL BUSINESS MACHINES CORP
Form 8-K
March 12, 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: **March 12, 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:

- 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 7.01 (Regulation FD Disclosure)

Attachment I of this Form 8-K contains information that is being posted on IBM's Investor Relations website (www.ibm.com/investor/). All of the information in Attachment I is hereby furnished.

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: March 12, 2007

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

IBM ADOPTS NEW REPORTING FORMAT

In the fourth quarter 2006 earnings presentation, IBM stated its intent to focus its discussions of financial performance on the IBM segment view, as this is how the business is managed and is the best reflection of the company's strategy.

Beginning with the release of first quarter 2007 earnings in April, IBM will change the presentation of revenue and gross margin in its earnings press release to reflect this segment focus. As a result of this change, IBM will now provide external segment gross profit dollars and gross profit margins for all its segments, including the two services segments individually. In the schedules below, IBM is providing historical revenue and gross margin information for the segments.

Prior to the fourth quarter of 2006, the segment view for software and services was consistent with the same categories in the Consolidated Statement of Earnings. As the company continues to move its strategic direction towards delivering solutions which bring integrated software and services capabilities to our clients, the alignment between segment and categories will diverge over time. To avoid confusion between the segment view and the Consolidated Statement of Earnings, IBM intends to change its presentation of revenue and cost in its Consolidated Statement of Earnings in future 10-K and 10-Q filings to the categories of Sales, Services, and Financing beginning with the first quarter 2007 10-Q.

These changes only impact the formats for the primary reporting of IBM's revenue and gross profit details, and do not reflect any changes in the company's reportable segment results or in the company's organization.

SUMMARY OF CHANGES AND NEW DISCLOSURES

- EARNINGS PRESS RELEASE FORMAT:** IBM is providing an example of the new press release format, which will now include external segment revenue and gross profit in the Comparative Financial Results Exhibit (Schedule 1). There is no change to the existing Consolidated Statement of Financial Position and Segment exhibits.
 - HISTORICAL SEGMENT GROSS PROFIT:** IBM is providing 2004, 2005, and 2006 by quarter for external segment revenue, gross profit, and gross profit margin (Schedule 2). The only information provided in this view which has not been previously disclosed is the external gross profit dollars and gross profit margins for the individual Global Technology Services and Global Business Services segments as well as Other.
 - CONSOLIDATED STATEMENT OF EARNINGS:** IBM is providing an example of the Consolidated Statement of Earnings that will reflect the revenue and cost categories of, Services, Sales, and Financing. In this construct, Hardware and Software have been categorized as Sales, and Other, which
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represented a very small component of revenue and cost, has been reclassified to the category consistent with the activity (Schedule 3). This change does not impact previously reported total revenue, cost, earnings, or cash flow.

See the following schedules for these changes:

| | | |
|-------------|-------------------------------------------------------------|----------------------|
| Schedule 1: | Comparative Financial Results Exhibit | Press Release format |
| Schedule 2: | External Segment Revenue and Gross Profit History | |
| Schedule 3: | Consolidated Statement of Earnings in 10-Q and 10-K filings | |

Amounts in schedules may not total due to rounding.

Schedule 1: Comparative Financial Results Exhibit Press Release format

INTERNATIONAL BUSINESS MACHINES CORPORATION
COMPARATIVE FINANCIAL RESULTS

| (Dollars in millions) | Three Months Ended December 31, | | Percent Change | |
|----------------------------------------------------------------------|------------------------------------|---------------|-------------------|----------|
| | 2006 | 2005 | | |
| REVENUE | | | | |
| Global Technology Services | \$ 8,590 | \$ 8,020 | 7.1 | % |
| Gross margin | 29.9 | % 30.9 | | % |
| Global Business Services | 4,223 | 3,980 | 6.1 | % |
| Gross margin | 24.7 | % 20.4 | | % |
| Systems and Technology | 7,070 | 6,849 | 3.2 | % |
| Gross margin | 41.8 | % 41.6 | | % |
| Software | 5,607 | 4,901 | 14.4 | % |
| Gross margin | 86.5 | % 86.3 | | % |
| Global Financing | 620 | 603 | 2.9 | % |
| Gross margin | 48.6 | % 57.4 | | % |
| Other | 147 | 74 | 97.2 | % |
| Gross margin | -6.9 | % 66.2 | | % |
| TOTAL REVENUE | 26,257 | 24,427 | 7.5 | % |
| GROSS PROFIT | 11,701 | 10,765 | 8.7 | % |
| Gross margin | 44.6 | % 44.1 | | % |
| EXPENSE AND OTHER INCOME | | | | |
| S,G&A | 5,620 | 5,252 | 7.0 | % |
| % of revenue | 21.4 | % 21.5 | | % |
| R,D&E | 1,587 | 1,459 | 8.8 | % |
| % of revenue | 6.0 | % 6.0 | | % |
| Intellectual property and custom development income | (241) | (228) | 5.8 | % |
| Other (income) and expense | (150) | (334) | -55.0 | % |
| Interest expense | 71 | 48 | 48.0 | % |
| TOTAL EXPENSE AND OTHER INCOME | 6,887 | 6,197 | 11.1 | % |
| % of revenue | 26.2 | % 25.4 | | % |
| INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | 4,814 | 4,568 | 5.4 | % |
| Pretax margin | 18.3 | % 18.7 | | % |
| Provision for income taxes | 1,350 | 1,348 | 0.2 | % |
| Effective tax rate | 28.0 | % 29.5 | | % |
| INCOME FROM CONTINUING OPERATIONS | 3,464 | 3,220 | 7.6 | % |

Net margin

13.2 % 13.2 %

Schedule 2: External Segment Revenue and Gross Profit History

| (Dollars in millions) | 1Q 06 | 2Q 06 | 3Q 06 | 4Q 06 | FY 06 | |
|---------------------------------------------|-----------|-----------|-----------|-----------|-----------|---|
| External Segment Revenue | | | | | | |
| Global Technology Services | \$ 7,719 | \$ 7,955 | \$ 8,058 | \$ 8,590 | \$ 32,322 | |
| Global Business Services | 3,848 | 3,939 | 3,959 | 4,223 | 15,969 | |
| Systems and Technology Group | 4,419 | 5,014 | 5,466 | 7,070 | 21,970 | |
| Software | 3,907 | 4,241 | 4,406 | 5,607 | 18,161 | |
| Global Financing | 582 | 576 | 587 | 620 | 2,365 | |
| Total Segments | 20,475 | 21,725 | 22,476 | 26,111 | 90,787 | |
| Other | 184 | 165 | 141 | 147 | 637 | |
| Total IBM | \$ 20,659 | \$ 21,890 | \$ 22,617 | \$ 26,257 | \$ 91,424 | |
| External Segment Gross Profit \$ | | | | | | |
| Global Technology Services | \$ 2,253 | \$ 2,368 | \$ 2,437 | \$ 2,565 | \$ 9,623 | |
| Global Business Services | 823 | 923 | 904 | 1,044 | 3,694 | |
| Systems and Technology Group | 1,413 | 1,831 | 2,087 | 2,952 | 8,284 | |
| Software | 3,290 | 3,573 | 3,760 | 4,848 | 15,471 | |
| Global Financing | 307 | 294 | 285 | 302 | 1,188 | |
| Total Segments | 8,086 | 8,989 | 9,472 | 11,711 | 38,259 | |
| Other | 2 | 25 | 19 | (10) | 36 | |
| Total IBM | \$ 8,088 | \$ 9,014 | \$ 9,492 | \$ 11,701 | \$ 38,295 | |
| External Segment Gross Profit Margin | | | | | | |
| Global Technology Services | 29.2 | % 29.8 | % 30.2 | % 29.9 | % 29.8 | % |
| Global Business Services | 21.4 | % 23.4 | % 22.8 | % 24.7 | % 23.1 | % |
| Systems and Technology Group | 32.0 | % 36.5 | % 38.2 | % 41.8 | % 37.7 | % |
| Software | 84.2 | % 84.2 | % 85.3 | % 86.5 | % 85.2 | % |
| Global Financing | 52.8 | % 51.1 | % 48.6 | % 48.6 | % 50.3 | % |
| Total Segments | 39.5 | % 41.4 | % 42.1 | % 44.9 | % 42.1 | % |
| Other | 1.2 | % 14.9 | % 13.6 | % -6.9 | % 5.7 | % |
| Total IBM | 39.1 | % 41.2 | % 42.0 | % 44.6 | % 41.9 | % |

| (Dollars in millions) | 1Q 05 | 2Q 05 | 3Q 05 | 4Q 05 | FY 05 | |
|---------------------------------------------|-----------|-----------|-----------|-----------|-----------|---|
| External Segment Revenue | | | | | | |
| Global Technology Services | \$ 7,822 | \$ 7,872 | \$ 7,787 | \$ 8,020 | \$ 31,501 | |
| Global Business Services | 3,887 | 4,129 | 3,910 | 3,980 | 15,906 | |
| Systems and Technology Group | 4,289 | 4,855 | 4,988 | 6,849 | 20,981 | |
| Personal Computing Division | 2,319 | 557 | | | 2,876 | |
| Software | 3,814 | 4,056 | 4,059 | 4,901 | 16,830 | |
| Global Financing | 579 | 620 | 599 | 603 | 2,401 | |
| Total Segments | 22,710 | 22,089 | 21,343 | 24,353 | 90,495 | |
| Other | 198 | 182 | 186 | 74 | 639 | |
| Total IBM | \$ 22,908 | \$ 22,270 | \$ 21,529 | \$ 24,427 | \$ 91,134 | |
| External Segment Gross Profit \$ | | | | | | |
| Global Technology Services | \$ 2,186 | \$ 2,254 | \$ 2,310 | \$ 2,476 | \$ 9,226 | |
| Global Business Services | 657 | 879 | 740 | 813 | 3,088 | |
| Systems and Technology Group | 1,666 | 2,007 | 1,949 | 2,851 | 8,473 | |
| Personal Computing Division | 295 | (50) | | | 245 | |
| Software | 3,197 | 3,422 | 3,448 | 4,229 | 14,296 | |
| Global Financing | 314 | 326 | 326 | 346 | 1,312 | |
| Total Segments | 8,314 | 8,838 | 8,774 | 10,715 | 36,640 | |
| Other | (60) | (62) | (36) | 49 | (108) | |
| Total IBM | \$ 8,254 | \$ 8,775 | \$ 8,738 | \$ 10,765 | \$ 36,532 | |
| External Segment Gross Profit Margin | | | | | | |
| Global Technology Services | 27.9 | % 28.6 | % 29.7 | % 30.9 | % 29.3 | % |
| Global Business Services | 16.9 | % 21.3 | % 18.9 | % 20.4 | % 19.4 | % |
| Systems and Technology Group | 38.8 | % 41.3 | % 39.1 | % 41.6 | % 40.4 | % |
| Personal Computing Division | 12.7 | % -9.0 | % | | 8.5 | % |
| Software | 83.8 | % 84.4 | % 84.9 | % 86.3 | % 84.9 | % |
| Global Financing | 54.2 | % 52.6 | % 54.4 | % 57.4 | % 54.6 | % |
| Total Segments | 36.6 | % 40.0 | % 41.1 | % 44.0 | % 40.5 | % |
| Other | -30.6 | % -34.3 | % -19.1 | % 66.2 | % -16.9 | % |
| Total IBM | 36.0 | % 39.4 | % 40.6 | % 44.1 | % 40.1 | % |

| (Dollars in millions) | 1Q 04 | 2Q 04 | 3Q 04 | 4Q 04 | FY 04 | |
|---------------------------------------------|-----------|-----------|-----------|-----------|-----------|---|
| External Segment Revenue | | | | | | |
| Global Technology Services | \$ 7,087 | \$ 7,353 | \$ 7,464 | \$ 8,178 | \$ 30,082 | |
| Global Business Services | 3,954 | 3,938 | 3,864 | 4,446 | 16,201 | |
| Systems and Technology Group | 4,225 | 4,640 | 4,665 | 6,443 | 19,973 | |
| Personal Computing Division | 2,377 | 2,679 | 2,713 | 2,968 | 10,737 | |
| Software | 3,706 | 3,695 | 3,846 | 4,895 | 16,141 | |
| Global Financing | 665 | 652 | 634 | 656 | 2,607 | |
| Total Segments | 22,014 | 22,957 | 23,187 | 27,585 | 95,741 | |
| Other | 161 | 141 | 162 | 87 | 552 | |
| Total IBM | \$ 22,175 | \$ 23,098 | \$ 23,349 | \$ 27,671 | \$ 96,293 | |
| External Segment Gross Profit \$ | | | | | | |
| Global Technology Services | \$ 1,916 | \$ 1,980 | \$ 2,082 | \$ 2,123 | \$ 8,102 | |
| Global Business Services | 707 | 777 | 675 | 944 | 3,104 | |
| Systems and Technology Group | 1,644 | 1,924 | 1,869 | 2,875 | 8,311 | |
| Personal Computing Division | 249 | 293 | 278 | 375 | 1,194 | |
| Software | 3,088 | 3,096 | 3,259 | 4,210 | 13,652 | |
| Global Financing | 403 | 387 | 381 | 391 | 1,562 | |
| Total Segments | 8,007 | 8,458 | 8,544 | 10,917 | 35,926 | |
| Other | (115) | (52) | (9) | (179) | (356) | |
| Total IBM | \$ 7,892 | \$ 8,406 | \$ 8,533 | \$ 10,738 | \$ 35,569 | |
| External Segment Gross Profit Margin | | | | | | |
| Global Technology Services | 27.0 | % 26.9 | % 27.9 | % 26.0 | % 26.9 | % |
| Global Business Services | 17.9 | % 19.7 | % 17.5 | % 21.2 | % 19.2 | % |
| Systems and Technology Group | 38.9 | % 41.5 | % 40.1 | % 44.6 | % 41.6 | % |
| Personal Computing Division | 10.5 | % 10.9 | % 10.2 | % 12.6 | % 11.1 | % |
| Software | 83.3 | % 83.8 | % 84.7 | % 86.0 | % 84.6 | % |
| Global Financing | 60.6 | % 59.4 | % 60.0 | % 59.6 | % 59.9 | % |
| Total Segments | 36.4 | % 36.8 | % 36.8 | % 39.6 | % 37.5 | % |
| Other | -71.7 | % -36.7 | % -5.8 | % -206.0 | % -64.6 | % |
| Total IBM | 35.6 | % 36.4 | % 36.5 | % 38.8 | % 36.9 | % |

Schedule 3: Consolidated Statement of Earnings in 10-Q and 10-K filings

**INTERNATIONAL BUSINESS MACHINES CORPORATION
AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF EARNINGS
(UNAUDITED)**

| (Dollars in millions) | Three Months Ended December 31, | |
|--------------------------------------------------------------|--------------------------------------------|---------------|
| | 2006 | 2005 |
| Revenue : | | |
| Services | \$ 12,788 | \$ 12,019 |
| Sales | 12,845 | 11,804 |
| Financing | 625 | 605 |
| Total revenue | 26,257 | 24,427 |
| Cost: | | |
| Services | 9,230 | 8,728 |
| Sales | 5,006 | 4,677 |
| Financing | 320 | 257 |
| Total cost | 14,556 | 13,662 |
| Gross profit | 11,701 | 10,765 |
| Expense and other income : | | |
| Selling, general and administrative | 5,620 | 5,252 |
| Research, development and engineering | 1,587 | 1,459 |
| Intellectual property and custom development income | (241) | (228) |
| Other (income) and expense | (150) | (334) |
| Interest expense | 71 | 48 |
| Total expense and other income | 6,887 | 6,197 |
| Income from continuing operations before income taxes | 4,814 | 4,568 |
| Provision for income taxes | 1,350 | 1,348 |
| Income from continuing operations | 3,464 | 3,220 |