INTERNATIONAL BUSINESS MACHINES CORP Form 8-K July 18, 2006

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 18, 2006

(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:

0	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 July 18, 2006 regarding its financial results for the periods ended June 30, 2006, including unaudited consolidated financial statements for the periods ended June 30, 2006, is Attachment I of this Form 8-K. Attachment II are the charts for IBM s Chief Financial Officer Mark Loughridge s second quarter earnings presentation on July 18, 2006, as well as certain reconciliation and other information (Non-GAAP Supplementary Materials) for information in Attachment I (press release), Attachment II (charts) and in Mr. Loughridge s presentation.
All of the information in Attachments I and II is hereby filed except for the information set forth below, which is furnished but not filed.
Attachment I (Press Release)
The following statements from Page 1:
or 11 percent excluding the non-recurring items;
up 1 percent when adjusted for the impact of the divested PC business.
Income from continuing operations increased 11 percent over the second quarter of 2005 without the non-recurring items of a year ago.
Excluding the PC revenue, revenues increased 1 percent compared with the second quarter of 2005.
(2 percent, adjusting for currency and PCs)
(1 percent, adjusting for currency and PCs)
(3 percent, adjusting for currency and PCs)
The following statements from Page 2:

Hardware revenues without the PC business increased 3 percent (2 percent, adjusting for currency).	
Excluding the PC business, the second-quarter 2005 gross profit margin was 40.6 percent.	
The following statement from Page 3: Excluding the divested PC business, revenues increased 1 percent (2 percent, adjusting for currency) compared with the six-month period of 2005.	
Attachment II (Charts)	
In the chart on Page 3 (2Q06 FINANCIAL SUMMARY):	
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all the data in the column entitled $\ B/(W)\ Yr/Yr\ w/o\ 2005\ Non-recur^*$ for the rows identified as $\ E/R\%$, Pre-Tax Income , PTI% , and Tax Rate % .

all the data in the column entitled B/(W) Yr/Yr w/o Non-recur* and PC Results except the data in the rows identified as Shares (Diluted) (M) and EPS .

In the chart on Page 4 (REVENUE & GROSS PROFIT MARGIN), all the data in the two rows identified as w/o PC except the data in the two columns identified as 2Q06.

In the chart on Page 5 (GEOGRAPHIC REVENUE), all the data in the column identified as @ CC w/o PC except the data in the row identified as OEM .

In the chart on Page 6 (EXPENSE SUMMARY):

the data in the row identified as SG&A for the column identified as B/(W) Yr/Yr w/o Non-Recur

all the data in the two rows identified as w/o PCs except the data in the column identified as 2Q06

the data in the rows identified as $\,$ Total Expense and Other Income $\,$ and $\,$ E/R% $\,$, in each case for the column identified as $\,$ B/(W) Yr/Yr w/o Non-Recur* $\,$

In the chart on Page 9 (GLOBAL SERVICES), the data in the two rows identified as PTI Margin*, in each case for the column identified as Yr/Yr.

In the chart on Page 11 (SOFTWARE), the following statement: Pre-tax margin up 2 points*.

In the chart on Page S-2 (REVENUE - KEY INDUSTRY SALES UNITS), all the data in the two columns under w/o PC .

In the chart on Page S-4 (SEGMENT PRE-TAX INCOME MARGIN), all the data in the two columns identified as w/o Non-recur*.

In the chart on Page S-5 (CURRENCY: YEAR-TO-YEAR COMPARISON), the first item of data (for 1Q06) in the row identified as $\,$ IBM excluding PC $\,$.

In the charts on Page S-11 (NON-GAAP SUPPLEMENTARY MATERIALS RECONCILIATION TO NET CASH FROM OPERATIONS), all the data in the row identified as Net Cash from Operations (Cont. Ops.), excluding GF Receivables and excluding Pension Funding .

In their entirety, each of the charts on Page S-3 (PC Results), Page S-12 (NON-GAAP SUPPLEMENTARY MATERIALS RECONCILIATION OF ESTIMATED RETIREMENT-RELATED COST), Page S-13 (NON-GAAP SUPPLEMENTARY MATERIALS RECONCILIATION OF REVENUE GROWTH IN EMERGING COUNTRIES), Page S-14 (NON-GAAP SUPPLEMENTARY MATERIALS RECONCILIATION OF PRE-TAX PROFIT), and Page S-15 (NON-GAAP SUPPLEMENTARY MATERIALS RECONCILIATION OF EQUITY COMPENSATION AND RETIREMENT-RELATED COSTS).

SIGNATURE	
Pursuant to the requirements of the Securities Exchange Act of 1934 undersigned, hereunto duly authorized.	, the registrant has duly caused this report to be signed on its behalf by the
Date: July 18, 2006	
	By: /s/ Timothy S. Shaughnessy
Timothy S. Shaughnessy	Vice President and Controller
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ATTACHMENT I

IBM REPORTS 2006 SECOND-QUARTER RESULTS

Diluted earnings per share of \$1.30 from continuing operations, up 14 percent as reported, or 16 percent excluding non-recurring items from the second-quarter 2005;

Income from continuing operations of \$2.0 billion, up 9 percent, or 11 percent excluding the non-recurring items:

Total revenues of \$21.9 billion, down 2 percent as reported, up 1 percent when adjusted for the impact of the divested PC business.

ARMONK, N.Y., July 18, 2006 . . . IBM today announced second-quarter 2006 diluted earnings per common share of \$1.30 from continuing operations, compared with diluted earnings of \$1.14 per share in the second quarter of 2005, a year-over-year increase of 14 percent. Second-quarter income from continuing operations was \$2.0 billion compared with \$1.9 billion in the second quarter of 2005, an increase of 9 percent.

The company posted a 16 percent increase in diluted earnings per share year over year without the second-quarter 2005 non-recurring pretax items of a year ago, which included incremental restructuring charges of \$1.7 billion (\$.72 per share), offset by a \$1.1 billion (\$.45 per share) gain on the sale of the PC business, and a \$775 million (\$.29 per share) legal settlement received from Microsoft. Income from continuing operations increased 11 percent over the second quarter of 2005 without the non-recurring items of a year ago.

Total revenues for the second quarter of 2006 of \$21.9 billion decreased 2 percent as reported and adjusting for currency from the second quarter of 2005, which includes revenue from the divested PC business. Excluding the PC revenue, revenues increased 1 percent compared with the second quarter of 2005.

Samuel J. Palmisano, IBM chairman and chief executive officer, said: IBM had another solid quarter with good earnings-per-share results. Our performance was led by our software business, which generated \$4.2 billion of revenue this quarter with strong margins, and is a significant part of our integrated portfolio. Our System z mainframe business returned to form this quarter, and we continued to manage important transitions in parts of our services business, which again improved margins. We continued to grow revenues in many key emerging markets. Cash flow, a key strength of our business model, drove high returns to shareholders through our stock buyback program.

IBM has taken many strategic actions in recent years to reposition the company. Our focus on higher-value segments of the marketplace continues to deliver good results to shareholders, our cash position improved significantly year over year, and we remain committed to investing in our business and driving business performance to generate strong returns for investors. IBM has returned more than \$5.8 billion to shareholders in the first half of the year.

From a geographic perspective, the Americas second-quarter revenues were \$9.5 billion, an increase of 1 percent as reported (2 percent, adjusting for currency and PCs) from the 2005 period. Revenues from Europe/Middle East/Africa were \$7.2 billion, down 4 percent (1 percent, adjusting for currency and PCs). Asia-Pacific revenues decreased 9 percent (3 percent, adjusting for currency and PCs) to \$4.2 billion. OEM revenues were \$939 million, up 34 percent compared with the 2005 second quarter.

Revenues from Global Services, including maintenance, decreased 1 percent as reported and adjusting for currency to \$11.9 billion in the

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second quarter of 2006. IBM signed services contracts totaling \$9.6 billion and ended the quarter with an estimated services backlog, including Strategic Outsourcing, Business Transformation Outsourcing, Global Business Services, Integrated Technology Services and Maintenance, of \$109 billion.

Hardware revenues decreased 7 percent (8 percent, adjusting for currency) to \$5.1 billion in the second-quarter 2006 compared to \$5.6 billion in the year-ago period, which includes revenue from the divested PC business. Hardware revenues without the PC business increased 3 percent (2 percent, adjusting for currency).

Hardware revenues for the Systems and Technology Group totaled \$5.0 billion for the quarter, up 3 percent. Revenues from the System z server products increased 7 percent compared with the year-ago period. Total delivery of System z computing power, which is measured in MIPS (millions of instructions per second), increased 7 percent. Revenues from the System x server products were flat compared with the year-ago period. Revenues from the System p UNIX servers decreased 10 percent and revenues from the System i servers decreased 7 percent. Revenues from Microelectronics increased 45 percent and revenues from System Storage decreased 2 percent.

Revenues from Software were \$4.2 billion, an increase of 5 percent as reported and adjusting for currency compared with the second quarter of 2005. Revenues from IBM s middleware brands, which include WebSphere, Information Management, Tivoli, Lotus and Rational products, were \$3.2 billion, up 4 percent versus the second quarter of 2005. Operating systems revenues decreased 6 percent to \$558 million compared with the prior-year quarter. Revenues from other software and services increased, led by solid growth in the Product Lifecycle Management portfolio of products.

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 17 percent. Revenues for Information Management software, which enables clients to leverage information on demand, increased 6 percent. Revenues from Tivoli software, infrastructure software that enables customers to centrally manage networks including security and storage capability, increased 12 percent, and revenues for Lotus software, which allows collaborating and messaging by customers in real-time communication and knowledge management, increased 6 percent year over year. Revenues from Rational software, integrated tools to improve the processes of software development, increased 8 percent compared with the year-ago quarter.

Global Financing revenues decreased 7 percent as reported and adjusting for currency in the second quarter to \$580 million.

The company s total gross profit margin was 41.2 percent in the 2006 second quarter compared with 39.4 percent in the 2005 period, which includes the divested PC business. Excluding the PC business, the second-quarter 2005 gross profit margin was 40.6 percent.

Total expense and other income increased 1 percent to \$6.1 billion compared with the prior-year period, which includes the non-recurring items. SG&A expense decreased 24 percent primarily due to the prior-year incremental restructuring charges of \$1.5 billion. RD&E expense increased 3 percent compared with the year-ago period. Intellectual property and custom development income decreased to \$188 million compared with \$288 million a year ago. Other (income) and expense was \$196 million of income in the second quarter of 2006, versus \$1.7 billion of income in the same period last year, reflecting the \$775 million benefit for the Microsoft legal settlement and the \$1.1 billion gain from the sale of the PC business partially offset by incremental charges of \$236 million relating to restructuring.

IBM s effective tax rate in the second-quarter 2006 was 30.0 percent, compared with 32.3 percent in the second quarter of 2005. The company s tax rate in the second-quarter 2005 increased 2.3 points due to the effect of the second-quarter non-recurring actions.

Share repurchases totaled approximately \$2.5 billion in the second quarter. The weighted-average number of diluted common shares outstanding

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in the second-quarter 2006 was 1.56 billion compared with 1.63 billion shares in the same period of 2005. As of June 30, 2006, there were 1.52 billion basic common shares outstanding.
IBM ended the second quarter of 2006 with \$10.0 billion of cash on hand. The balance sheet remains strong, and the company is well positioned to take advantage of opportunities.
Debt, including Global Financing, totaled \$21.8 billion, compared with \$22.6 billion at year-end 2005. From a management segment view, the non-global financing debt-to-capitalization ratio was 1.5 percent at the end of June 30, 2006, and Global Financing debt increased \$813 million from year- end 2005 to a total of \$21.3 billion, resulting in a debt-to-equity ratio of 6.9 to 1.
Year-To-Date 2006 Results
Income from continuing operations for the six months ended June 30, 2006 was \$3.7 billion, compared with \$3.3 billion in the year-ago period, which includes non-recurring pretax items for incremental restructuring charges of \$1.7 billion, offset by the \$1.1 billion gain on the sale of the PC business, and the \$775 million legal settlement received from Microsoft. Diluted earnings per share from continuing operations were \$2.37 compared with \$1.98 per diluted share for the 2005 period. Revenues from continuing operations for the six-month period totaled \$42.5 billion, a decrease of 6 percent (4 percent, adjusting for currency) compared with \$45.2 billion for the six months of 2005, which includes PC revenues of \$2.9 billion for the first four months of 2005 only. Excluding the divested PC business, revenues increased 1 percent (2 percent, adjusting for currency) compared with the six-month period of 2005.
For total operations, net income for the first six months of 2006 was \$3.7 billion, or \$2.37 per diluted share, compared with the six months of 2005 net income of \$3.2 billion, or \$1.96 per diluted share, which included a loss from discontinued operations of \$27 million.
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, as discussed in the company s filings with the U.S. Securities and Exchange Commission (SEC).
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:
without non-recurring items,
without divested PC business,
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 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 Supplementary Materials) to the Form 8K that includes this press release and is being submitted today 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/2q06. Presentation charts will be available on the Web site prior to the Webcast.
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Financial Results Attached (amounts may not total due to rounding)

INTERNATIONAL BUSINESS MACHINES CORPORATION

COMPARATIVE FINANCIAL RESULTS

(Unaudited; Dollars in millions except per share amounts)

		Three Months Ended June 30,				D4		
	2006		2005*	Percent Change	2006	2005*		Percent Change
REVENUE								
Global Services	\$ 11,894	\$	12,001	-0.9% \$	23,461	\$	23,710	-1.0%
Gross margin	27.7%		26.1%		27.2%		25.2%	
Hardware	5,148		5,562	-7.4%	9,722		12,315	-21.1%
Gross margin	35.9%		33.9%		33.7%		30.4%	
Software	4,241		4,056	4.5%	8,147		7,871	3.5%
Gross margin	84.2%		84.4%	1.5 /	84.2%		84.1%	3.3 %
Global Financing	580		622	-6.8%	1,164		1,202	-3.2%
Gross margin	51.1%		52.6%	0.070	52.0%		53.4%	3.270

Other	26		29	-11.0%	54		80	-31.8%
Gross margin	19.8%		25.4%		-15.4%		63.8%	
TOTAL REVENUE	21,890		22,270	-1.7%	42,549		45,178	-5.8%
GROSS PROFIT	9,014		8,775	2.7%	17,102		17,029	0.4%
Gross margin	41.2%		39.4%		40.2%		37.7%	
EXPENSE AND OTHER INCOME								
S.G&A	4,916		6,497	-24.3%	9,518		11,430	-16.7%
% of revenue	22.5%		29.2%	24.570	22.4%		25.3%	10.770
2.20	4 500			2.16	2.055		2026	4.40
R,D&E	1,522		1,477	3.1%	2,977		2,936	1.4%
% of revenue	7.0%		6.6%		7.0%		6.5%	
Intellectual property and custom development								
income	(188)		(288)	-34.5%	(418)		(507)	-17.6%
Other (income) and expense	(196)		(1,711)	-88.6%	(442)		(1,689)	-73.8%
Interest expense	72		67	6.4%	138		116	19.0%
TOTAL EXPENSE AND OTHER INCOME	6,125		6,042	1.4%	11,774		12,286	-4.2%
% of revenue	28.0%		27.1%		27.7%		27.2%	
INCOME FROM CONTINUING OPERATIONS								
BEFORE INCOME TAXES	2,889		2,733	5.7%	5,328		4,743	12.3%
Pre-tax margin	13.2%		12.3%		12.5%		10.5%	
Provision for income taxes	867		882	-1.7%	1,598		1,485	7.7%
Effective tax rate	30.0%		32.3%		30.0%		31.3%	
INCOME FROM CONTINUING OPERATIONS Net margin	\$ 2,022 9.2%	\$	1,851 8.3%	9.2% \$	3,730 8.8%	\$	3,258 7.2%	14.5%
1100 111015111	7.270		0.570		0.070		1.270	

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DISCONTINUED OPERATIONS						
Loss from discontinued operations	0	22		0	27	
NET INCOME	\$ 2,022	\$ 1,829	10.5% \$	3,730	\$ 3,231	15.4%
EARNINGS/(LOSS)PER SHARE OF						
COMMON STOCK:						
ASSUMING DILUTION						
CONTINUING OPERATIONS	\$ 1.30	\$ 1.14	14.0% \$	2.37	\$ 1.98	19.7%
DISCONTINUED OPERATIONS	(0.00)	(0.01)		(0.00)	(0.02)	
TOTAL	\$ 1.30	\$ 1.12	16.1% \$	2.37	\$ 1.96	20.9%
BASIC						
CONTINUING OPERATIONS	\$ 1.31	\$ 1.15	13.9% \$	2.40	\$ 2.02	18.8%
DISCONTINUED OPERATIONS	(0.00)	(0.01)		(0.00)	(0.02)	
TOTAL	\$ 1.31	\$ 1.14	14.9% \$	2.40	\$ 2.00	20.0%
WEIGHTED-AVERAGE NUMBER OF						
COMMON SHARES OUTSTANDING (M s)						
ASSUMING DILUTION	1,560.1	1,627.9		1,573.6	1,644.2	
BASIC	1,538.1	1,603.9		1,551.3	1,616.3	

^{*} Reclassified to conform with 2006 presentation; prior year Enterprise Investments reclassified to various segments.

INTERNATIONAL BUSINESS MACHINES CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

(Dollars in millions)		At June 30, 2006		At December 31, 2005	Percent Change
ASSETS					
Cash, cash equivalents, and marketable securities	\$	9,990	\$	13,686	-27.0%
Receivables - net, inventories, prepaid expenses		29,601		31,975	-7.4%
Plant, rental machines, and other property - net		13,963		13,756	1.5%
Investments and other assets		49,823		46,331	7.5%
TOTAL ASSETS	\$	103,377	\$	105,748	-2.2%
LIABILITIES AND STOCKHOLDERS EQUITY					
Short-term debt	\$	7,907	\$	7,216	9.6%
Long-term debt	Ψ	13,872	Ψ	15,425	-10.1%
Total debt		21,779		22,641	-3.8%
Accounts payable, taxes, and accruals		26,210		27,936	-6.2%
Other liabilities		21,838		22,073	-1.1%
				,	
TOTAL LIABILITIES		69,828		72,650	-3.9%
STOCKHOLDERS EQUITY		33,549		33,098	1.4%
· ·				,	
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$	103,377	\$	105,748	-2.2%

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

SECOND QUARTER 2006

Pre-tax

				Revenue				Income (Loss) From Continuing	Pre-tax
(Dollars in millions)		External		Internal		Total		Operations	Margin
SEGMENTS									
	ф	7.055	ф	4.40	ф	0.404	Ф	707	0.40
Global Technology Services	\$	7,955	\$	449	\$	8,404	\$	787	9.4%
% change		1.1%		-16.0%		0.0%		nm	
Global Business Services		3,939		351		4,290		407	9.5%
% change		-4.6%		-6.3%		-4.7%		nm	9.5 /0
// Change		-4.0 //		-0.3 /0		-4.7 /0		11111	
Systems and Technology Group		5,014		271		5,286		187	3.5%
% change		3.3%		6.9%		3.5%		-30.4%	
Software		4,241		543		4,784		1,156	24.2%
% change		4.5%		14.8%		5.6%		27.1%	
Global Financing		576		338		914		319	34.9%
% change		-7.0%		22.8%		2.1%		-5.7%	
Personal Computing Division		0		0		0		0	0.0%
TOTAL REPORTABLE SEGMENTS		21,725		1,952		23,677		2,856	12.1%
% change		-1.6%		1.7%		-1.4%		122.5%	
Eliminations / Other		165		(1,952)		(1,787)		32	
TOTAL IBM CONSOLIDATED	\$	21,890	\$	0	\$	21,890	\$	2,889	13.2%
% change		-1.7%				-1.7%		5.7%	

SECOND QUARTER 2005*

(Dollars in millions)	E	xternal	evenue nternal	Total	In (I I Con	re-tax ncome Loss) From ntinuing erations	Pre-tax Margin
SEGMENTS							
Global Technology Services	\$	7,872	\$ 535	\$ 8,407	\$	(16)	-0.2%
Global Business Services		4,129	374	4,503		(68)	-1.5%
Systems and Technology Group		4,855	254	5,109		269	5.3%
Software		4,056	474	4,530		909	20.1%
Global Financing		620	275	895		338	37.8%

Personal Computing Division	557	7	564	(149)	-26.4%
TOTAL REPORTABLE SEGMENTS	22,089	1,919	24,008	1,283	5.3%
Eliminations / Other	182	(1,919)	(1,736)	1,449	
TOTAL IBM CONSOLIDATED	\$ 22,270	\$ 0	\$ 22,270	\$ 2,733	12.3%

nm - not meaningful

^{*} The company made changes to its management system effective as of the first quarter of 2006, including the separation of the Global Services segment into two new reportable segments: Global Technology Services and Global Business Services, as well as the reclassification of Enterprise Investments to other reportable segments.

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

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(Dollars in millions)	E	external	Revenue Internal	ola M	Total	C	Pre-tax Income (Loss) From Continuing Operations	Pre-tax Margin
SEGMENTS								
Global Technology Services % change	\$	15,674 -0.1%	\$ 900 -18.8%	\$	16,575 -1.4%	\$	1,631 153.2%	9.8%
Global Business Services % change		7,787 -2.8%	687 -1.5%		8,474 -2.7%		763 nm	9.0%
Systems and Technology Group % change		9,433 3.2%	552 11.4%		9,985 3.6%		169 -45.3%	1.7%
Software % change		8,147 3.5%	1,057 12.9%		9,205 4.5%		2,177 27.0%	23.6%
Global Financing % change		1,158 -3.4%	702 -3.0%		1,860 -3.3%		733 0.5%	39.4%
Personal Computing Division		0	0		0		0	0.0%
TOTAL REPORTABLE SEGMENTS % change		42,200 -5.8%	3,898 -2.4%		46,098 -5.5%		5,473 64.7%	11.9%
Eliminations / Other		349	(3,898)		(3,549)		(145)	
TOTAL IBM CONSOLIDATED % change	\$	42,549 -5.8%	\$ 0	\$	42,549 -5.8%	\$	5,328 12.3%	12.5%

SIX MONTHS 2005*

E	xternal				Total	In (I F Con	come Loss) From tinuing	Pre-tax Margin
\$	15,694	\$	1,109	\$	16,803	\$	644	3.8%
	8,016		697		8,713		92	1.1%
		·	External II \$ 15,694 \$	\$ 15,694 \$ 1,109	External Internal \$ 15,694 \$ 1,109 \$	External Internal Total \$ 15,694 \$ 1,109 \$ 16,803	Revenue Con External Internal Total Ope	External Internal Total Operations \$ 15,694 \$ 1,109 \$ 16,803 \$ 644

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Systems and Technology Group	9,144	495	9,639		309	3.2%
Software	7,871	937	8,807		1.714	19.5%
Software	7,071	931	0,007		1,/14	19.5%
Global Financing	1,199	724	1,923		729	37.9%
Personal Computing Division	2.876	33	2,909		(165)	-5.7%
1 crsonar Computing Division	2,070	33	2,707		(103)	-5.170
TOTAL REPORTABLE SEGMENTS	44,799	3,995	48,794	:	3,323	6.8%
Eliminations / Other	379	(3,995)	(3,616)		1,419	
		(=,,,,=)	(0,000)		-,,	
TOTAL IBM CONSOLIDATED	\$ 45,178	\$ 0	\$ 45,178	\$	4,743	10.5%

nm - not meaningful

^{*} The company made changes to its management system effective as of the first quarter of 2006, including the separation of the Global Services segment into two new reportable segments: Global Technology Services and Global Business Services, as well as the reclassification of Enterprise Investments to other reportable segments.

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ATTACHMENT II



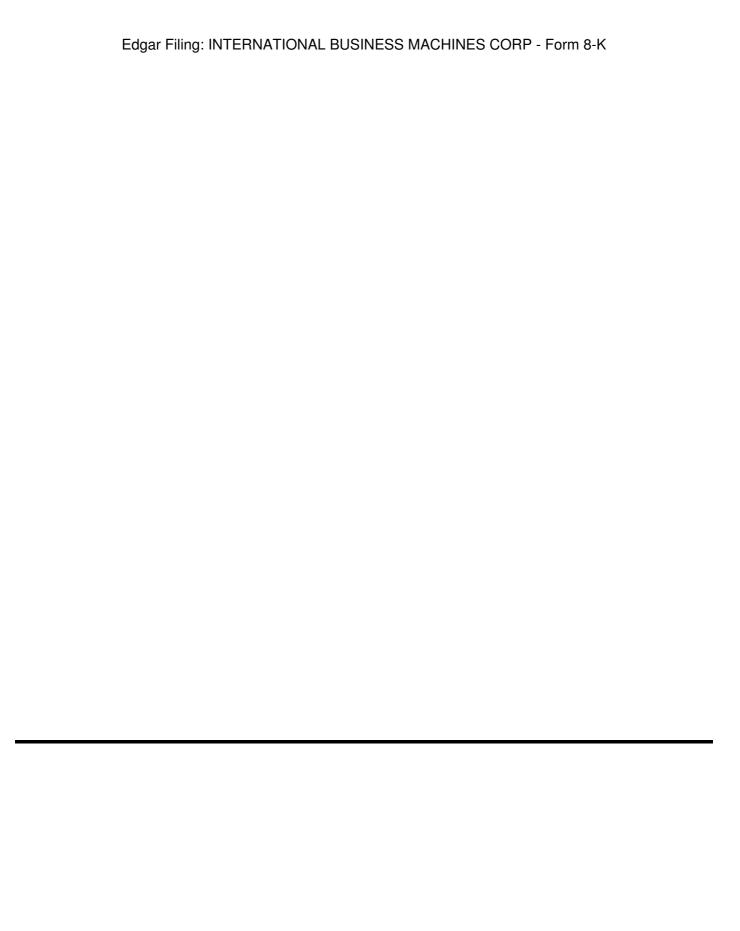


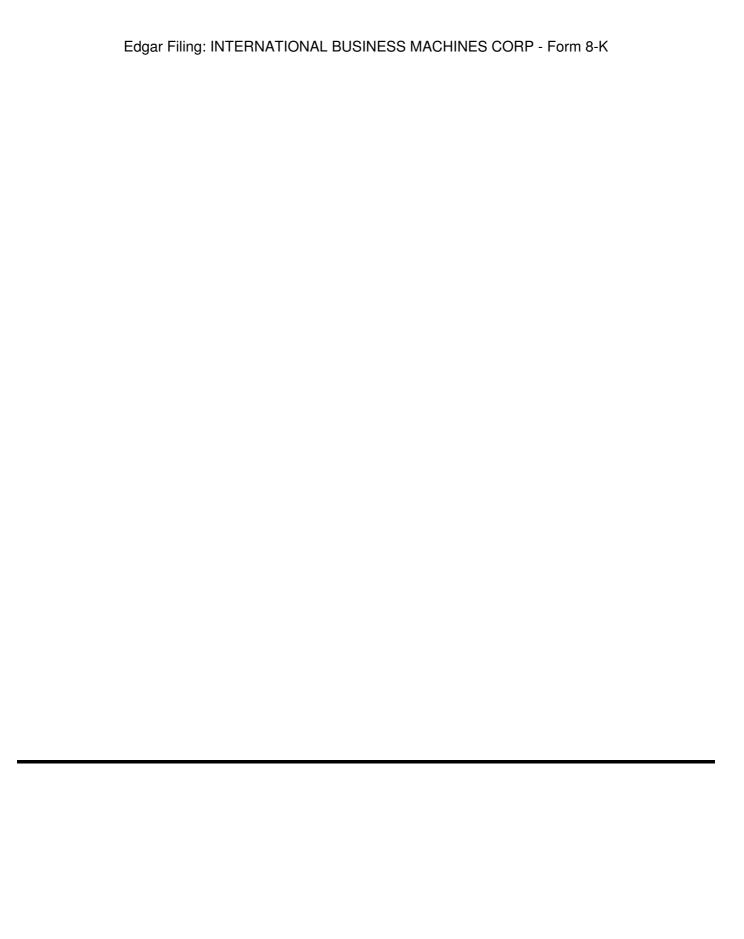


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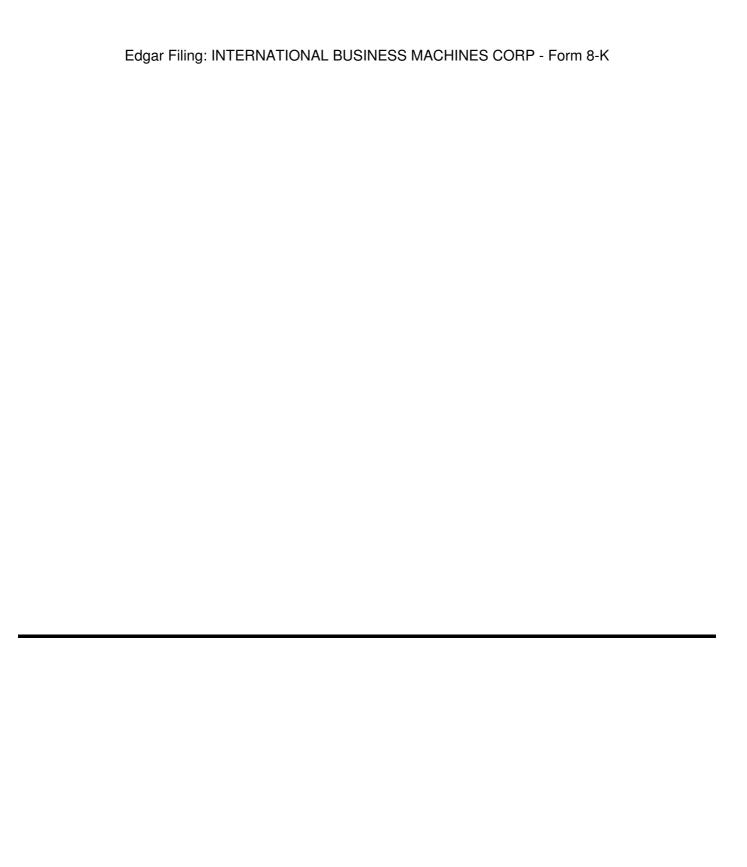


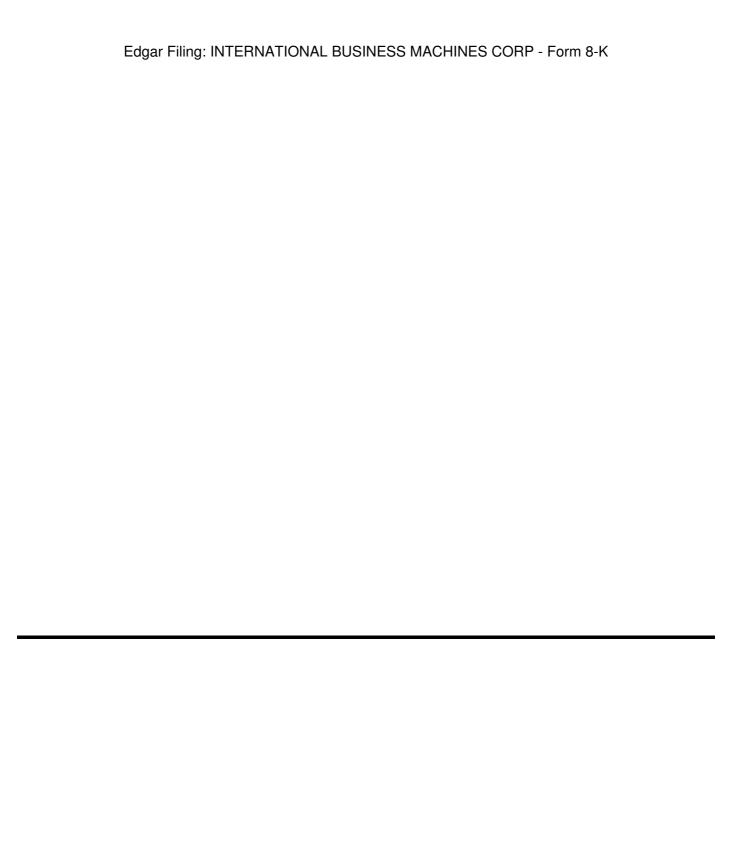
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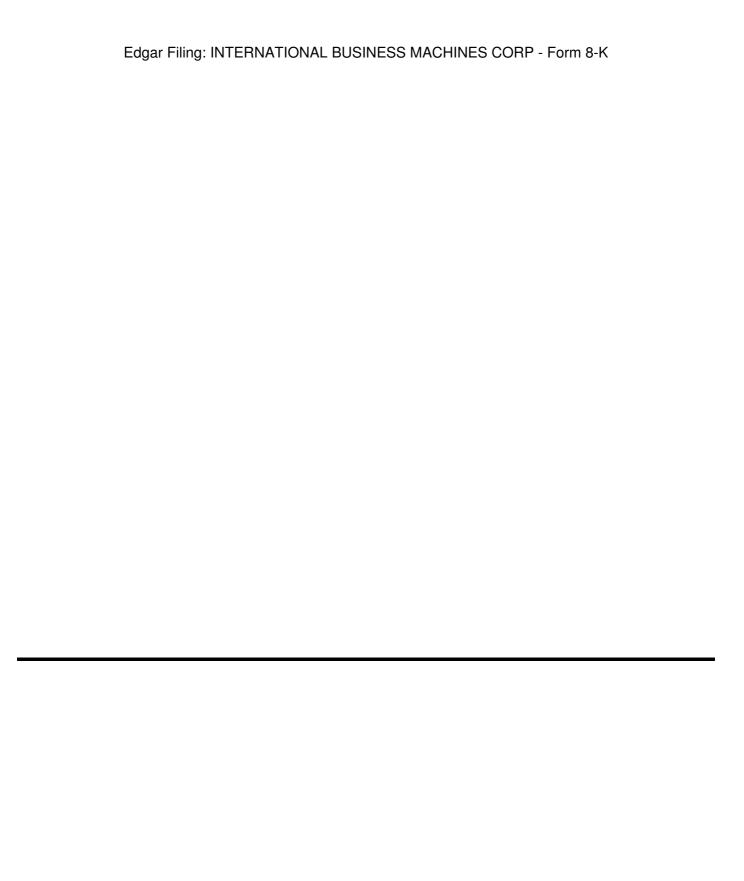
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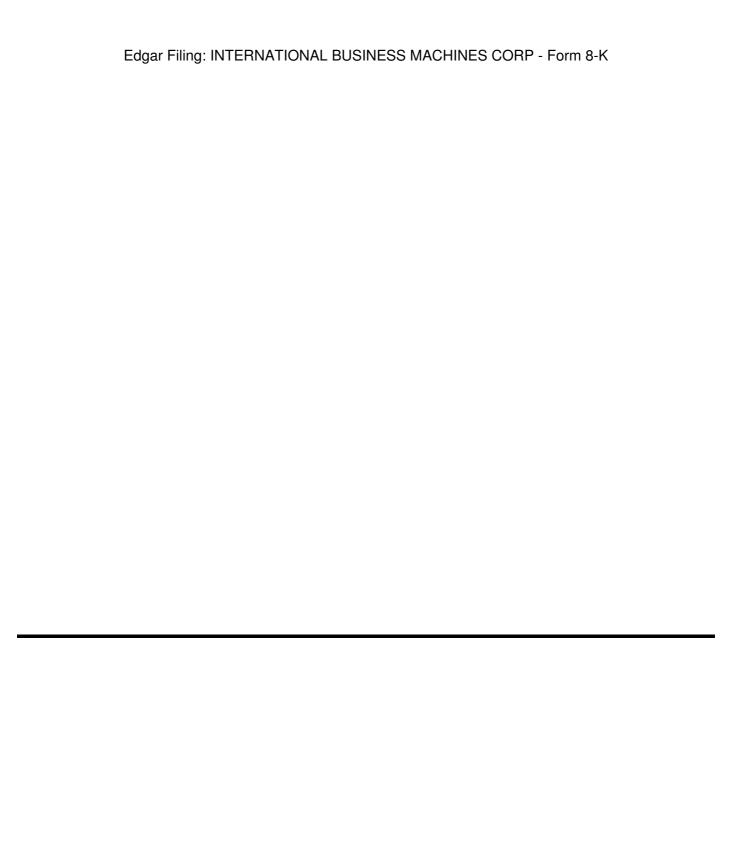
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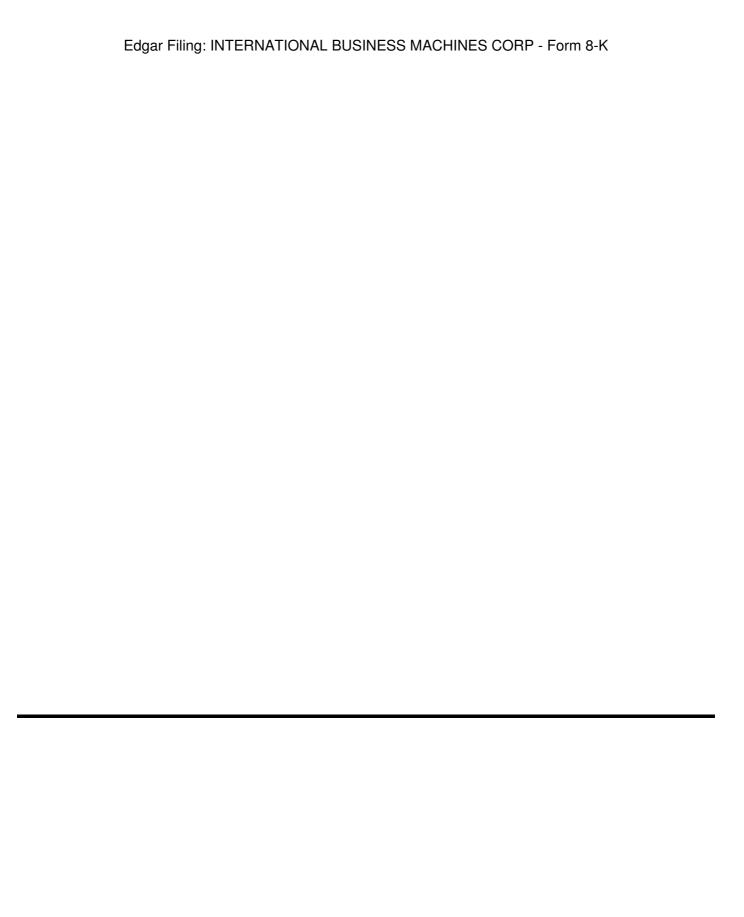


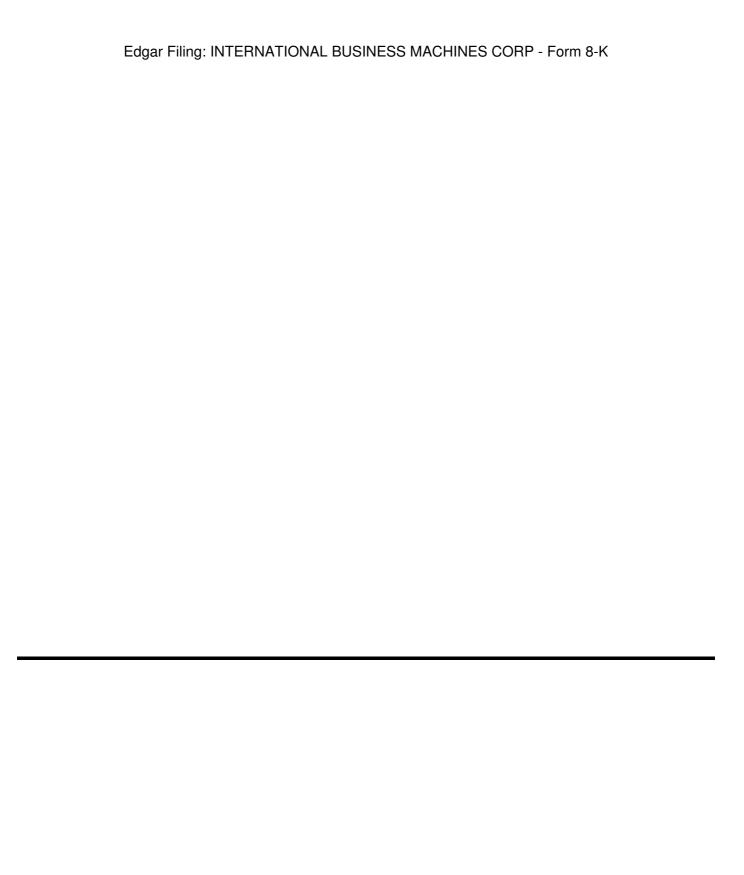
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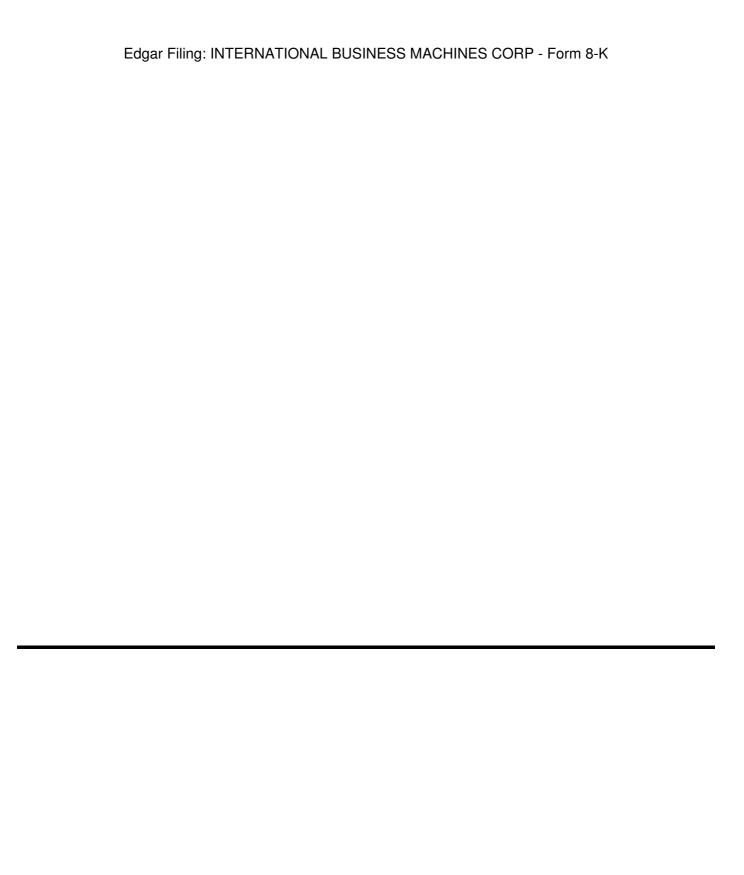
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