

INTERNATIONAL BUSINESS MACHINES CORP  
Form 8-K  
July 18, 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: July 18, 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)

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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:

- 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 18, 2007, regarding its financial results for the periods ended June 30, 2007, including consolidated financial statements for the periods ended June 30, 2007, 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 18, 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 information set forth below, which is furnished but not filed:

Press Release

The following statement on Page 1: Without the gain, income from continuing operations of \$2.2 billion in the second quarter of 2007 increased \$167 million, or 8 percent versus the comparable period last year.

The following statements on Page 2: and increased 12 percent without the gain from the PSD sale.

Without the benefit, other (income) and expense contributed income of \$172 million in the quarter.

Excluding the impact of the gain from the PSD sale, the second-quarter 2007 tax rate was 28.5 percent

The following statement on page 3: Without the gain, income from continuing operations for the six months ended June 30, 2007 was \$4.0 billion

Slides

On Slide 4 (2Q07 FINANCIAL SUMMARY), the data in the columns entitled IBM without Printer Gain and B/(W) Yr/Yr, in each case for the rows identified as Expense PTI, Tax Rate and Net Income.

On Slide 7 (EXPENSE SUMMARY), the data in the column entitled w/o Printer Gain for the rows identified as Other Income and Expense\*\* and Total Expense and Other Income.

On Slide S8 (2Q07 FINANCIAL SUMMARY), the data in the column entitled B/(W) Yr/Yr without Printer Gain for the row identified as Pre-Tax Income.

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 18, 2007

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

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**IBM REPORTS 2007 SECOND-QUARTER RESULTS**

- Total revenues of \$23.8 billion, up 9 percent as reported;
- Global Services revenues up 10 percent, Software revenues up 13 percent;
- Diluted earnings of \$1.55 per share, including a gain from sale of Printing Systems; earnings per share were \$1.50, up 15 percent without the gain;
- Gross profit margin increased year to year for the 12th consecutive quarter.

ARMONK, N.Y., July 18, 2007 . . . IBM (NYSE: IBM) today announced second-quarter 2007 diluted earnings of \$1.55 per share from continuing operations, including 5 cents per share for a pre-tax gain of \$81 million relating to the sale of the Printing Systems Division (PSD), an increase of 19 percent as reported, compared with diluted earnings of \$1.30 per share in the second quarter of 2006. Diluted earnings for the second-quarter 2007 were \$1.50 per share, excluding this gain, an increase of 15 percent year over year.

Second-quarter income from continuing operations was \$2.3 billion, including the gain from the sale of PSD, compared with \$2.0 billion in the second quarter of 2006, an increase of 12 percent. Without the gain, income from continuing operations of \$2.2 billion in the second quarter of 2007 increased \$167 million, or 8 percent versus the comparable period last year. Total revenues for the second quarter of 2007 of \$23.8 billion increased 9 percent (6 percent, adjusting for currency) from the second quarter of 2006.

This quarter's strong revenue growth — our best since 2001 — underscores IBM's global capabilities, as well as the higher value that clients place on our expanding software product line and wide range of services offerings that are helping them transform their businesses, said Samuel J. Palmisano, IBM chairman, president and chief executive officer. Our overall results again demonstrate the strength of our business model and our ability to achieve profitable growth and strong cash generation. Earlier this year we described to our investors IBM's objective for earnings per share growth through 2010. While this is a long-term goal, our first-half results represent solid progress on major elements of this roadmap, including earnings growth, margin expansion, and revenue growth in key areas: emerging markets, acquisitions and service oriented architecture opportunities.

From a geographic perspective, the Americas' second-quarter revenues were \$10.1 billion, an increase of 6 percent as reported (5 percent, adjusting for currency) from the 2006 period. Revenues from Europe/Middle East/Africa were \$8.2 billion, up 13 percent (6 percent, adjusting for currency). Asia-Pacific revenues increased 10 percent (10 percent, adjusting for currency) to \$4.6 billion. OEM revenues were \$852 million, down 9 percent compared with the 2006 second quarter.

Total Global Services revenues grew 10 percent (7 percent, adjusting for currency), led by growth in Asia Pacific. Global Business Services segment revenues, which benefited from strong client demand for SOA offerings and global delivery capabilities, increased 10 percent (8 percent, adjusting for currency) to \$4.3 billion. Global Technology Services segment revenues increased 10 percent (7 percent, adjusting for currency) to \$8.8 billion, with significant growth from existing clients. IBM signed services contracts totaling \$11.7 billion, up 22 percent year over year, and ended the second 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.

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Revenues from the Systems and Technology segment totaled \$5.1 billion for the quarter, up 2 percent (flat, adjusting for currency). Systems and Technology revenues from the System p UNIX server products increased 7 percent compared with the 2006 period and revenues from the System x servers increased 16 percent. Revenues from System z server products increased 4 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 45 percent, marking eight consecutive quarters of year-to-year MIPS growth. Revenues from the System i servers decreased 15 percent. Revenues from System Storage increased 6 percent and revenues from Microelectronics decreased 9 percent.

Revenues from the Software segment were \$4.8 billion, an increase of 13 percent (9 percent, adjusting for currency) compared with the second quarter of 2006. Revenues from IBM's middleware products, which primarily include WebSphere, Information Management, Tivoli, Lotus and Rational products, were \$3.7 billion, up 16 percent versus the second quarter of 2006. Operating systems revenues of \$568 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 28 percent. Revenues for Information Management software, which enables clients to leverage information on demand, increased 21 percent. Revenues from Tivoli software, infrastructure software that enables clients to centrally manage networks including security and storage capability, increased 33 percent, and revenues for Lotus software, which allows collaborating and messaging by clients in real-time communication and knowledge management, increased 12 percent year over year. Revenues from Rational software, integrated tools to improve the processes of software development, increased 11 percent compared with the year-ago quarter.

Global Financing segment revenues increased 4 percent (1 percent, adjusting for currency) in the second quarter to \$597 million.

The company's total gross profit margin was 41.8 percent in the 2007 second quarter compared with 41.2 percent in the 2006 period — the 12th consecutive quarter of year-to-year increase.

Total expense and other income increased 11 percent to \$6.8 billion compared with the prior-year period, and increased 12 percent without the gain from the PSD sale. SG&A expense increased 15 percent to \$5.6 billion. RD&E expense increased 1 percent compared with the year-ago period. Intellectual property and custom development income increased to \$246 million compared with \$188 million a year ago. Other (income) and expense contributed income of \$253 million in the second quarter of 2007, including the gain from the PSD sale, versus income of \$196 million in the second quarter of 2006. Without the benefit, other (income) and expense contributed income of \$172 million in the quarter.

IBM's effective tax rate in the second-quarter 2007 was 28.0 percent compared with 30.0 percent in the second quarter of 2006. Excluding the impact of the gain from the PSD sale, the second-quarter 2007 tax rate was 28.5 percent compared with 30.0 percent in the year-ago quarter.

Shares repurchased in the second quarter were approximately \$14.6 billion, including \$12.5 billion executed through accelerated share repurchase agreements in May. The repurchases are part of the \$15 billion authorization for the company's stock repurchase program approved by the IBM board of directors on April 24.

The weighted-average number of diluted common shares outstanding in the second-quarter 2007 was 1.46 billion compared with 1.56 billion shares in the same period of 2006. As of June 30, 2007, there were 1.36 billion basic common shares outstanding.

Debt, including Global Financing, totaled \$34.7 billion, compared with \$22.7 billion at year-end 2006. From a management segment view, the non-global financing debt-to-capitalization ratio was 46.7 percent at the end of June 30, 2007, reflecting increased financial leverage associated with the accelerated share repurchase agreements. Global Financing debt increased \$658 million from year-end 2006 to a total of \$22.9 billion, resulting in a debt-to-equity ratio of 7.0 to 1.

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

Income from continuing operations for the six months ended June 30, 2007 was \$4.1 billion, including the gain for the sale of PSD, compared with \$3.7 billion in the year-ago period. Diluted earnings per share from continuing operations were \$2.75 compared with \$2.37 per diluted share for the 2006 period. Without the gain, income from continuing operations for the six months ended June 30, 2007 was \$4.0 billion, or \$2.70 per diluted share. Revenues from continuing operations for the six-month period totaled \$45.8 billion, an increase of 8 percent (5 percent, adjusting for currency) compared with \$42.5 billion for the six 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; quarterly fluctuations in revenues and volatility of stock prices; the company's ability to attract and retain key personnel; adverse affects from tax matters; currency fluctuations and customer financing risks; customer credit risk on trade receivables; 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**

- certain financial results adjusted for the gain associated with the divestiture of the Printing Systems 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](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/2q07](http://www.ibm.com/investor/2q07). 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 June 30,		Percent Change	Six Months Ended June 30,		Percent Change	
	2007	2006		2007	2006		
<b>REVENUE</b>							
Global Technology Services	\$ 8,756	\$ 7,955	10.1	% \$ 17,013	\$ 15,674	8.5	%
Gross margin	29.8	% 29.8	%	29.5	% 29.5	%	%
Global Business Services	4,338	3,939	10.1	% 8,521	7,787	9.4	%
Gross margin	24.3	% 23.4	%	24.1	% 22.4	%	%
Systems and Technology	5,102	5,014	1.8	% 9,622	9,433	2.0	%
Gross margin	37.3	% 36.5	%	36.1	% 34.4	%	%
Software	4,777	4,241	12.7	% 9,028	8,147	10.8	%
Gross margin	84.9	% 84.2	%	84.3	% 84.2	%	%
Global Financing	597	576	3.6	% 1,211	1,158	4.6	%
Gross margin	46.0	% 51.1	%	48.5	% 52.0	%	%
Other	201	165	22.3	% 404	349	15.8	%
Gross margin	19.8	% 14.9	%	15.9	% 7.7	%	%
<b>TOTAL REVENUE</b>	<b>23,772</b>	<b>21,890</b>	<b>8.6</b>	<b>% 45,801</b>	<b>42,549</b>	<b>7.6</b>	<b>%</b>
<b>GROSS PROFIT</b>	<b>9,938</b>	<b>9,014</b>	<b>10.3</b>	<b>% 18,804</b>	<b>17,102</b>	<b>10.0</b>	<b>%</b>
Gross margin	41.8	% 41.2	%	41.1	% 40.2	%	%
<b>EXPENSE AND OTHER INCOME</b>							
S,G&A	5,631	4,916	14.5	% 10,720	9,518	12.6	%
% of revenue	23.7	% 22.5	%	23.4	% 22.4	%	%
R,D&E	1,534	1,522	0.8	% 3,044	2,977	2.2	%
% of revenue	6.5	% 7.0	%	6.6	% 7.0	%	%
Intellectual property and custom development income	(246 )	(188 )	30.9	% (451 )	(418 )	8.1	%
Other (income) and expense	(253 )	(196 )	29.1	% (432 )	(442 )	-2.2	%
Interest expense	130	72	82.1	% 203	138	47.3	%
<b>TOTAL EXPENSE AND OTHER INCOME</b>	<b>6,796</b>	<b>6,125</b>	<b>11.0%</b>	<b>13,083</b>	<b>11,774</b>	<b>11.1</b>	<b>%</b>
% of revenue	28.6	% 28.0	%	28.6	% 27.7	%	%
<b>INCOME FROM CONTINUING OPERATIONS</b>							
<b>BEFORE INCOME TAXES</b>	<b>3,142</b>	<b>2,889</b>	<b>8.8</b>	<b>% 5,721</b>	<b>5,328</b>	<b>7.4</b>	<b>%</b>
Pre-tax margin	13.2	% 13.2	%	12.5	% 12.5	%	%
Provision for income taxes	881	867	1.6	% 1,616	1,598	1.1	%
Effective tax rate	28.0	% 30.0	%	28.2	% 30.0	%	%
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>\$ 2,261</b>	<b>\$ 2,022</b>	<b>11.8</b>	<b>% \$4,105</b>	<b>\$ 3,730</b>	<b>10.1</b>	<b>%</b>
Net margin	9.5	% 9.2	%	9.0	% 8.8	%	%
<b>DISCONTINUED OPERATIONS</b>							



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Loss from discontinued operations	1	0	0	0				
NET INCOME	\$ 2,260	\$ 2,022	11.8	% \$ 4,105	\$ 3,730	10.0	%	
EARNINGS/(LOSS) PER SHARE OF COMMON STOCK:								
ASSUMING DILUTION								
CONTINUING OPERATIONS	\$ 1.55	\$ 1.30	19.2	% \$ 2.75	\$ 2.37	16.0	%	
DISCONTINUED OPERATIONS	(0.00 )	(0.00 )		(0.00 )	(0.00 )			
TOTAL	\$ 1.55	\$ 1.30	19.2	% \$ 2.75	\$ 2.37	16.0	%	
BASIC								
CONTINUING OPERATIONS	\$ 1.57	\$ 1.31	19.8	% \$ 2.80	\$ 2.40	16.7	%	
DISCONTINUED OPERATIONS	(0.00 )	(0.00 )		(0.00 )	(0.00 )			
TOTAL	\$ 1.57	\$ 1.31	19.8	% \$ 2.80	\$ 2.40	16.7	%	
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (M s)								
ASSUMING DILUTION	1,460.8	1,560.1		1,491.8	1,573.6			
BASIC	1,437.2	1,538.1		1,468.3	1,551.3			

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**INTERNATIONAL BUSINESS MACHINES CORPORATION**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
(Unaudited)

(Dollars in millions)	At June 30, 2007	At December 31, 2006	Percent Change	
<b>ASSETS</b>				
Cash, cash equivalents, and marketable securities	\$ 10,190	\$ 10,657	-4.4	%
Receivables net, inventories, prepaid expenses	32,103	34,003	-5.6	%
Plant, rental machines, and other property net	14,479	14,440	0.3	%
Investments and other assets	45,777	44,134	3.7	%
<b>TOTAL ASSETS</b>	<b>\$ 102,548</b>	<b>\$ 103,234</b>	<b>-0.7</b>	<b>%</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>				
Short-term debt	\$ 20,543	\$ 8,902	130.8	%
Long-term debt	14,179	13,780	2.9	%
Total debt	34,721	22,682	53.1	%
Accounts payable, taxes, and accruals	27,541	31,189	-11.7	%
Other liabilities	23,530	20,857	12.8	%
<b>TOTAL LIABILITIES</b>	<b>85,792</b>	<b>74,728</b>	<b>14.8</b>	<b>%</b>
<b>STOCKHOLDERS EQUITY</b>	<b>16,756</b>	<b>28,506</b>	<b>-41.2</b>	<b>%</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 102,548</b>	<b>\$ 103,234</b>	<b>-0.7</b>	<b>%</b>

**International Business Machines Corporation**  
**Segment Data**  
**(Unaudited)**

(Dollars in millions)

SECOND QUARTER 2007

	Revenue			Pre-tax Income (Loss) from Continuing Operations		Pre-tax Margin
	External	Internal	Total			
Global Technology Services	\$ 8,756	\$ 409	\$ 9,165	\$ 788	8.6	%
Y-T-Y Change	10.1	% -8.9	% 9.1	% 0.1	%	
Global Business Services	4,338	329	4,667	486	10.4	%
Y-T-Y Change	10.1	% -6.2	% 8.8	% 19.2	%	
Systems and Technology	5,102	255	5,357	332	6.2	%
Y-T-Y Change	1.8	% -6.0	% 1.4	% 77.0	%	
Software	4,777	549	5,326	1,250	23.5	%
Y-T-Y Change	12.7	% 1.0	% 11.3	% 8.2	%	
Global Financing	597	341	938	332	35.4	%
Y-T-Y Change	3.6	% 0.9	% 2.6	% 4.2	%	
Total Reportable Segments	23,571	1,883	25,453	3,187	12.5	%
Y-T-Y Change	8.5	% -3.6	% 7.5	% 11.6	%	
Eliminations / Other	201	(1,883)	(1,681)	(46)		
Total IBM Consolidated	\$ 23,772	\$ 0	\$ 23,772	\$ 3,142	13.2	%
Y-T-Y Change	8.6	%	8.6	% 8.8	%	

(Dollars in millions)

SECOND QUARTER 2006

	Revenue			Pre-tax Income (Loss) from Continuing Operations		Pre-tax Margin
	External	Internal	Total			
Global Technology Services	\$ 7,955	\$ 449	\$ 8,404	\$ 787	9.4	%
Global Business Services	3,939	351	4,290	407	9.5	%
Systems and Technology	5,014	271	5,286	187	3.5	%
Software	4,241	543	4,784	1,156	24.2	%
Global Financing	576	338	914	319	34.9	%
Total Reportable Segments	21,725	1,952	23,677	2,856	12.1	%

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Eliminations / Other	165	(1,952 )	(1,787 )	32		
Total IBM Consolidated	\$ 21,890	\$ 0	\$ 21,890	\$ 2,889	13.2	%

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## International Business Machines Corporation

## Segment Data

(Unaudited)

(Dollars in millions)

SIX MONTHS 2007

	Revenue			Pre-tax Income (Loss) from Continuing Operations	Pre-tax Margin	
	External	Internal	Total			%
Global Technology Services	\$ 17,013	\$ 834	\$ 17,848	\$ 1,469	8.2	%
Y-T-Y Change	8.5	% -7.3	% 7.7	% -10.0	%	
Global Business Services	8,521	630	9,152	955	10.4	%
Y-T-Y Change	9.4	% -8.2	% 8.0	% 25.2	%	
Systems and Technology	9,622	523	10,145	428	4.2	%
Y-T-Y Change	2.0	% -5.3	% 1.6	% 153.0	%	
Software	9,028	1,134	10,162	2,286	22.5	%
Y-T-Y Change	10.8	% 7.2	% 10.4	% 5.0	%	
Global Financing	1,211	689	1,901	706	37.1	%
Y-T-Y Change	4.6	% -1.8	% 2.2	% -3.7	%	
Total Reportable Segments	45,397	3,810	49,207	5,844	11.9	%
Y-T-Y Change	7.6	% -2.3	% 6.7	% 6.8	%	
Eliminations / Other	404	(3,810)	(3,406)	(124)		
Total IBM Consolidated	\$ 45,801	\$ 0	\$ 45,801	\$ 5,721	12.5	%
Y-T-Y Change	7.6	%	7.6	% 7.4	%	

(Dollars in millions)

SIX MONTHS 2006

	Revenue			Pre-tax Income (Loss) from Continue Operations	Pre-tax Margin	
	External	Internal	Total			%
Global Technology Services	\$ 15,674	\$ 900	\$ 16,575	\$ 1,631	9.8	%
Global Business Services	7,787	687	8,474	763	9.0	%
Systems and Technology	9,433	552	9,985	169	1.7	%

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Software	8,147	1,057	9,205	2,177	23.6	%
Global Financing	1,158	702	1,860	733	39.4	%
Total Reportable Segments	42,200	3,898	46,098	5,473	11.9	%
Eliminations / Other	349	(3,898 )	(3,549 )	(145 )		
Total IBM Consolidated	\$ 42,549	\$ 0	\$ 42,549	\$ 5,328	12.5	%

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