

IBM to Sell Printing Systems Division; IBM and Ricoh Create InfoPrint Solutions Company

January 25, 2007

On January 25, IBM and Ricoh announced the formation of a joint venture company, the InfoPrint Solutions Company, based on IBM's Printing Systems Division.

Strategic Rationale

In the dynamic IT industry, companies need to continually reinvent themselves to bring long term value for clients. IBM's strategy is to be the world leader in providing high value solutions – focused on the enterprise and small and medium business clients.

IBM has taken a series of actions over recent years to strengthen its position in high value segments. Since 2002, IBM has invested close to \$16 billion to acquire over 60 companies – primarily in software and services. The acquired technologies and capabilities have been integrated into IBM's offerings and solutions. In addition, IBM has divested several businesses including hard disk drives, displays, and most recently the PC business. The net effect of these acquisitions and divestitures is an improved profit profile for IBM.

The creation of InfoPrint Solutions Company is an extension to a long standing relationship with Ricoh. IBM and Ricoh have been strategic partners for 20 years, as the two firms have collaborated on a number of innovations, including delivering leading-edge print quality and powerful production printing solutions.

IBM's Printing System Division employees and assets will become part of a business with a mission of dynamic growth and exclusive focus on that segment. This focus and investment should allow the InfoPrint Solutions Company to continue to provide innovative solutions, which will benefit current and future customers.

With the eventual divestiture of the printer business, IBM will continue to refine its focus on its strategic businesses and the clients of those businesses.

Transaction Details and Business Relationships

IBM will transfer its printer business to the joint venture, and initially receive 49 percent ownership of the company. IBM will divest its 49 percent ownership to Ricoh over the next three years as the joint venture evolves into a fully owned subsidiary of Ricoh.

The InfoPrint Solutions Company will be based out of Boulder, Colorado, and is expected to begin operations with about 1,200 employees.

In an effort to ensure a smooth transition for the new joint venture and for our clients, IBM will provide services to the joint venture. The InfoPrint joint venture will reimburse IBM for its cost in providing these services.

- IBM will provide maintenance services to InfoPrint Solutions Company clients under a service agreement for one year from closing. The intention is for more than 1,000 IBM printer maintenance specialists to eventually join the new company. This will depend on local business conditions and completion of local information and consultation processes.
- IBM will also provide IT services and a variety of business process services to the joint venture for up to 5 years.
- The joint venture will have use of IBM's InfoPrint brand and the IBM logo for 5+ years.

IBM is also assigning and licensing certain intellectual property to InfoPrint Solutions Company and Ricoh.

In addition, the joint venture will benefit from access to IBM's worldwide distribution and sales network. IBM client teams, business partners and dealers will continue to offer complete information technology solutions, with the InfoPrint Solutions Company as a worldwide partner for printers.

IBM Global Financing will continue as a financing provider for InfoPrint Solutions Company as it provides the joint venture's clients and business partners with the industry's leading financial services.

As consideration for the transaction, IBM will receive approximately \$725 million in cash upon closing. The cash received is for the initial 51 percent acquisition of the joint venture by Ricoh as well as a prepayment for the remaining 49 percent, and certain royalties and services to be provided by IBM to the InfoPrint Solutions Company. Final consideration for this transaction will be determined at the end of the three-year period based upon the participation in the profits and losses recorded by the equity partners.

The transaction will be completed as soon as is practical, with a target closing date of the second quarter of 2007. During the period between signing and closing, IBM will continue to operate this business in the normal course. There will be minimal charges associated with the transaction in the current quarter.

Financial Implications

Proceeds and Gain

Cash received at closing will be approximately \$725 million. After accounting for IBM's net asset transfer and transaction costs, the expected net proceeds from the transaction will be between \$615 million and \$650 million. IBM expects to defer between \$375 million and \$440 million of these proceeds based upon the estimated fair value of certain services and royalty arrangements. This amount will be recorded as revenue or IP income as services are provided and royalty earned.

As a result, the total expected pre-tax gain on the transaction is estimated to be between \$175 million and \$275 million. The exact amount of the gain is not yet determinable and will be disclosed when the transaction closes and that information is available. The variables that impact the final gain include valuation of the final net assets to be transferred at closing, valuation of other agreements signed with the joint venture, transaction related expenses, and the operational performance of the joint venture.

\$ millions
(estimates)

725	Cash Received
<u>75-110</u>	Net Assets Transferred / Transaction Costs
615-650	Net Proceeds
<u>375-440</u>	Deferral for Certain Services and Royalty Arrangements
175-275	Net Pre-tax Gain on Transaction (3 yrs)

At closing, IBM expects to record a pre-tax gain of \$100 million to \$150 million. This amount is subject to the same variables noted above. The balance of the total gain will be recognized over the next three years as Ricoh acquires the remaining 49 percent of the joint venture. IBM will account for its investment in the joint venture using the equity method of accounting.

Revenue and Profit Impact

IBM's Printing Systems Division has been reported in IBM's Systems and Technology Group segment. In 2006, this division reported approximately \$1 billion of revenue, principally consisting of hardware, supplies and maintenance services.

After closing, IBM Systems and Technology revenue will be reduced by approximately \$250 million per quarter. This loss of revenue will be partially offset in the first full year following the sale by approximately \$130 million of revenue per quarter received from services agreements signed concurrent with the transaction. After the first full year, the amount of services revenue to IBM will be lower, reflecting the transfer of the maintenance resources to the joint venture. The revenue for the services agreements, which includes a portion of the deferral of net proceeds described above, will be included in IBM's Global Technology Services segment.

Aside from the gain on the sale, the net profit from the transaction is expected to be no more than a penny per share in any quarter of 2007, as the foregone profit from the printer business is expected to be offset by the profit from the services contracts and royalties.

The actual amounts will be included in IBM's reported results in 2007. While each investor will determine how this impacts their individual model for 2007, it is reasonable to assume that the portion of the gain recognized in 2007 will increase the expectation for earnings per share in the second quarter and the full year 2007. During the fourth quarter 2006 earnings report on January 18, IBM stated that it expected 2007 to be in line with its

long term objective of 10 percent to 12 percent earnings per share growth. With these changes, IBM expects that 2007 will be closer to the high end of this range.