

INTERNATIONAL BUSINESS MACHINES CORP  
Form 8-K  
March 31, 2016

**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 31, 2016**

(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:

- 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 8.01 (Other Events)**

On March 31, 2016, IBM posted information on its Investor Relations website ([www.ibm.com/investor/](http://www.ibm.com/investor/)) providing historical financial information regarding previously announced updates to the company's reporting segments. Attachment I of this Form 8-K contains the information that was posted on IBM's Investor Relations website.

IBM's web site ([www.ibm.com](http://www.ibm.com)) contains a significant amount of information about IBM, including financial and other information for investors ([www.ibm.com/investor/](http://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 31, 2016

By: /s/ Stanley J. Sutula III  
Stanley J. Sutula III  
Vice President and Controller  
(Chief Accounting Officer)

**IBM provides historical data in preparation for 2016 segment reporting change  
IBM Emerging as a Cognitive Solutions and Cloud Platform Company**

*31 March 2016*

During IBM's investor briefing on February 25, 2016, senior management discussed a number of changes to its management system and organizational structure as IBM evolves into a cognitive solutions and cloud platform company. With the changes, the company is updating its reported segments. There is no change to IBM consolidated results.

The company will implement the new segment structure starting with first quarter 2016 results, which will be reported in mid-April. Today, the company is providing a view of the segment results on the new basis for the last 2 years, to allow investors to update their historical financial models in advance of the first quarter earnings report. The two attached exhibits provide data for 2014 and 2015 under the new segment structure:

Exhibit 1: Reclassified Management System Segment View

Exhibit 2: Additional Revenue and Gross Profit Information

A description of the segment reporting changes was provided in an article posted to IBM's investor website on February 25. The posting also references additional information to be provided going forward, including information on the company's strategic imperatives by segment. The February 25 article is attached below, and also available on IBM's investor website, along with a replay of IBM's Investor Briefing.

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**IBM Updates Reporting Segments**  
IBM Emerging as a Cognitive Solutions and Cloud Platform Company

25 February 2016

IBM has been transforming its business, addressing the evolving needs of its clients, while continuing to support their most critical business processes. During IBM's investor briefing on February 25, Ginni Rometty and the senior management team discussed the progress of the company's transformation, and described how IBM is becoming more than a hardware, software and services company; it is emerging as a cognitive solutions and cloud platform company. Information on the event is available on IBM's investor website at <http://www.ibm.com/investor/events/investor0216.html>

To support this transformation, the company has made a number of changes to its management system and organizational structure. Segment reporting reflects the way the company analyzes business results and allocates resources. With the management system and organizational changes, IBM is updating its reported segments, effective January 1, 2016. To be clear, there is no change to IBM consolidated results.

**Primary Changes**

The primary changes are driven by realignment of IBM's software portfolio, as software value shifts to new areas.

- The company has created a cognitive solutions business. This encompasses the solutions units addressing many of the strategic areas, including analytics, commerce and security, several of the new initiatives around Watson, Watson Health, Watson IoT, and Transaction Processing software. Many of these are new opportunity areas, opening up incremental revenue and profit pools.
- Integration software, including WebSphere, has been brought together with IBM's cloud infrastructure and platform capabilities and Global Technology Services business, reflecting the importance of integration software to enterprise-grade hybrid clouds.
- Operating systems software has been more closely aligned with the underlying hardware platforms.

The company has also realigned a portion of the software support revenue, which was previously reported in the Integrated Technology Services line of Global Technology Services, to the underlying software product areas. In addition, the company has also changed the allocation of some expenses between segments to better reflect the current portfolio structure.

The company has also evolved the management system *within* some of its businesses, as it addresses the changing business environment.

**Summary of Segment Changes**

2015 Reporting Structure

**Software**

- Key Branded Middleware
- Other Middleware
- Operating Systems
- Other Software & Services

**Global Business Services**

- Consulting & Systems Integration
- GBS Outsourcing (AMS SO & GPS)

**Global Technology Services**

- Strategic Outsourcing
- Integrated Technology Services
- Maintenance

**Systems Hardware**

- Systems Hardware

**Global Financing**

Software Value Shifting

- Solutions SW
- Transaction Processing SW
- Integration SW
- Operating Systems SW

2016 Reporting Structure

**Cognitive Solutions**

- Solutions Software
- Transaction Processing Software

**Global Business Services**

- Consulting
- Global Process Services
- Application Management

**Technology Services & Cloud Platforms**

- Infrastructure Services
- Technical Support Services
- Integration Software

**Systems**

- Systems Hardware
- Operating Systems Software

**Global Financing**

The company will report revenue and pre-tax income for each segment. Revenue will be reported by the line items noted in the table above. This better reflects the way the business is managed today, and is a more contemporary presentation of results.

External gross profit and gross profit margin will continue to be reported by segment. In the case of Technology Services & Cloud Platforms, the company will also provide a view of the services and software gross margins. Similarly, for the Systems segment, the company will report hardware and software gross margins.

While the Software segment will no longer exist as a stand-alone unit, the software revenue is clearly visible within the Technology Services & Cloud Platforms, Cognitive Solutions, and Systems segments. Given the current focus on IBM's software revenue performance, the company will continue to report total software revenue performance throughout 2016.

In addition, the company plans to provide additional information on its strategic imperatives by segment.

The net effect is alignment with IBM's current management system, and provides investors with additional transparency on the drivers of our business.

**What to Expect Over the Next 2 Months**

Today, the company is providing an overview of the new reported segments, and how they relate to the prior segments. Before the end of March, the company will provide a view of the segment results for 2014 and 2015 by quarter, so that investors may update their historical models. The company will report on the new reporting basis starting with first quarter 2016 results in April.

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## Exhibit 1: Reclassified Management System Segment View (Unaudited)

March 31, 2016

## International Business Machines Corporation

## Management System Segment View

| (\$M)                 | Cognitive Solutions & Industry Services |                          | Technology Services & Cloud Platforms | Systems | Global Financing | Total Segments |
|-----------------------|---|--------------------------|---------------------------------------|---------|------------------|----------------|
|                       | Cognitive Solutions                     | Global Business Services |                                       |         |                  |                |
| <b>1Q14</b>           |   |                          |                                       |         |                  |                |
| Total Revenue         | 4,956                                   | 5,105                    | 9,805                                 | 2,970   | 1,129            | 23,966         |
| External Revenue      | 4,355                                   | 4,964                    | 9,589                                 | 2,709   | 512              | 22,128         |
| Internal Revenue      | 602                                     | 141                      | 216                                   | 261     | 617              | 1,838          |
| Pre-tax Income        | 1,518                                   | 742                      | 1,365                                 | -201    | 596              | 4,020          |
| Pre-tax Income Margin | 31%                                     | 15%                      | 14%                                   | -7%     | 53%              | 17%            |
| <b>2Q14</b>           |   |                          |                                       |         |                  |                |
| Total Revenue         | 5,589                                   | 5,078                    | 10,086                                | 3,887   | 1,189            | 25,828         |
| External Revenue      | 5,056                                   | 4,938                    | 9,864                                 | 3,593   | 504              | 23,955         |
| Internal Revenue      | 532                                     | 140                      | 222                                   | 294     | 685              | 1,874          |
| Pre-tax Income        | 2,108                                   | 990                      | 1,894                                 | 560     | 593              | 6,145          |
| Pre-tax Income Margin | 38%                                     | 19%                      | 19%                                   | 14%     | 50%              | 24%            |
| <b>3Q14</b>           |   |                          |                                       |         |                  |                |
| Total Revenue         | 4,987                                   | 4,975                    | 9,744                                 | 3,284   | 1,084            | 24,074         |
| External Revenue      | 4,464                                   | 4,840                    | 9,517                                 | 2,997   | 487              | 22,305         |
| Internal Revenue      | 523                                     | 135                      | 226                                   | 287     | 598              | 1,769          |
| Pre-tax Income        | 1,778                                   | 849                      | 1,840                                 | 247     | 475              | 5,190          |
| Pre-tax Income Margin | 36%                                     | 17%                      | 19%                                   | 8%      | 44%              | 22%            |
| <b>4Q14</b>           |   |                          |                                       |         |                  |                |
| Total Revenue         | 6,374                                   | 4,897                    | 10,094                                | 3,160   | 1,119            | 25,644         |
| External Revenue      | 5,815                                   | 4,771                    | 9,919                                 | 2,995   | 532              | 24,031         |
| Internal Revenue      | 559                                     | 127                      | 175                                   | 164     | 588              | 1,613          |
| Pre-tax Income        | 2,811                                   | 766                      | 1,985                                 | 777     | 526              | 6,865          |
| Pre-tax Income Margin | 44%                                     | 16%                      | 20%                                   | 25%     | 47%              | 27%            |
| <b>2014</b>           |   |                          |                                       |         |                  |                |
| Total Revenue         | 21,906                                  | 20,055                   | 39,729                                | 13,300  | 4,522            | 99,512         |
| External Revenue      | 19,689                                  | 19,512                   | 38,889                                | 12,294  | 2,034            | 92,418         |
| Internal Revenue      | 2,216                                   | 543                      | 840                                   | 1,006   | 2,488            | 7,093          |
| Pre-tax Income        | 8,215                                   | 3,347                    | 7,084                                 | 1,384   | 2,189            | 22,219         |
| Pre-tax Income Margin | 37%                                     | 17%                      | 18%                                   | 10%     | 48%              | 22%            |

**Exhibit 1 (Continued): Reclassified Management System Segment View**  
(Unaudited)

March 31, 2016

## International Business Machines Corporation

## Management System Segment View

| (\$M)                 | Cognitive Solutions &<br>Industry Services | Global Business<br>Services | Technology<br>Services & Cloud<br>Platforms | Systems | Global Financing | Total Segments |
|-----------------------|--|-----------------------------|---|---------|------------------|----------------|
| <b>1Q15</b>           |  |                             |   |         |                  |                |
| Total Revenue         | 4,682                                      | 4,449                       | 8,720                                       | 2,314   | 1,048            | 21,213         |
| External Revenue      | 4,047                                      | 4,318                       | 8,554                                       | 2,142   | 461              | 19,523         |
| Internal Revenue      | 635  | 131                         | 166   | 173     | 586              | 1,690          |
| Pre-tax Income        | 1,528                                      | 588                         | 1,131                                       | 261     | 515              | 4,023          |
| Pre-tax Income Margin | 33%  | 13%                         | 13%   | 11%     | 49%              | 19%            |
| <b>2Q15</b>           |  |                             |   |         |                  |                |
| Total Revenue         | 5,049                                      | 4,475                       | 9,071                                       | 2,730   | 1,182            | 22,506         |
| External Revenue      | 4,516                                      | 4,345                       | 8,898                                       | 2,541   | 478              | 20,778         |
| Internal Revenue      | 532  | 130                         | 173   | 189     | 704              | 1,728          |
| Pre-tax Income        | 1,825                                      | 643                         | 1,414                                       | 538     | 613              | 5,033          |
| Pre-tax Income Margin | 36%  | 14%                         | 16%   | 20%     | 52%              | 22%            |
| <b>3Q15</b>           |  |                             |   |         |                  |                |
| Total Revenue         | 4,580                                      | 4,326                       | 8,702                                       | 2,182   | 1,031            | 20,821         |
| External Revenue      | 4,052                                      | 4,206                       | 8,541                                       | 1,973   | 447              | 19,219         |
| Internal Revenue      | 528  | 120                         | 161   | 209     | 584              | 1,601          |
| Pre-tax Income        | 1,596                                      | 664                         | 1,317                                       | 248     | 562              | 4,387          |
| Pre-tax Income Margin | 35%  | 15%                         | 15%   | 11%     | 54%              | 21%            |
| <b>4Q15</b>           |  |                             |   |         |                  |                |
| Total Revenue         | 5,744                                      | 4,415                       | 9,347                                       | 3,099   | 1,216            | 23,821         |
| External Revenue      | 5,225                                      | 4,297                       | 9,149                                       | 2,892   | 454              | 22,015         |
| Internal Revenue      | 520  | 118                         | 198   | 207     | 763              | 1,806          |
| Pre-tax Income        | 2,296                                      | 707                         | 1,808                                       | 674     | 674              | 6,158          |
| Pre-tax Income Margin | 40%  | 16%                         | 19%   | 22%     | 55%              | 26%            |
| <b>2015</b>           |  |                             |   |         |                  |                |
| Total Revenue         | 20,055                                     | 17,664                      | 35,840                                      | 10,325  | 4,477            | 88,361         |
| External Revenue      | 17,841                                     | 17,166                      | 35,142                                      | 9,547   | 1,840            | 81,535         |
| Internal Revenue      | 2,215                                      | 499                         | 698   | 778     | 2,637            | 6,826          |
| Pre-tax Income        | 7,245                                      | 2,602                       | 5,669                                       | 1,722   | 2,364            | 19,602         |
| Pre-tax Income Margin | 36%  | 15%                         | 16%   | 17%     | 53%              | 22%            |

## Exhibit 2: Additional Revenue and Gross Profit Information (Unaudited)

March 31, 2016

## International Business Machines Corporation

| Cognitive Solutions                            | 1Q14        | 2Q14        | 3Q14        | 4Q14        | FY14          | 1Q15        | 2Q15        | 3Q15        | 4Q15        | FY15          |
|--|-------------|-------------|-------------|-------------|---------------|-------------|-------------|-------------|-------------|---------------|
| Total External Revenue                         | 4,355       | 5,056       | 4,464       | 5,815       | <b>19,689</b> | 4,047       | 4,516       | 4,052       | 5,225       | <b>17,841</b> |
| Solutions Software                             | 2,798       | 3,257       | 2,861       | 3,932       | <b>12,847</b> | 2,655       | 3,053       | 2,710       | 3,604       | <b>12,021</b> |
| Transaction Processing Software                | 1,557       | 1,799       | 1,604       | 1,883       | <b>6,842</b>  | 1,393       | 1,464       | 1,343       | 1,620       | <b>5,819</b>  |
| Total Gross Profit \$                          | 3,724       | 4,399       | 3,829       | 5,133       | <b>17,085</b> | 3,418       | 3,873       | 3,418       | 4,479       | <b>15,189</b> |
| Total Gross Profit %                           | 85.5%       | 87.0%       | 85.8%       | 88.3%       | <b>86.8%</b>  | 84.5%       | 85.7%       | 84.4%       | 85.7%       | <b>85.1%</b>  |
| <b>Global Business Services</b>                | <b>1Q14</b> | <b>2Q14</b> | <b>3Q14</b> | <b>4Q14</b> | <b>FY14</b>   | <b>1Q15</b> | <b>2Q15</b> | <b>3Q15</b> | <b>4Q15</b> | <b>FY15</b>   |
| Total External Revenue                         | 4,964       | 4,938       | 4,840       | 4,771       | <b>19,512</b> | 4,318       | 4,345       | 4,206       | 4,297       | <b>17,166</b> |
| Consulting                                     | 2,305       | 2,323       | 2,253       | 2,177       | <b>9,057</b>  | 1,946       | 1,955       | 1,863       | 1,915       | <b>7,678</b>  |
| Global Process Services                        | 481         | 404         | 381         | 422         | <b>1,688</b>  | 360         | 360         | 359         | 357         | <b>1,435</b>  |
| Application Management                         | 2,178       | 2,211       | 2,206       | 2,172       | <b>8,767</b>  | 2,012       | 2,034       | 1,981       | 2,025       | <b>8,053</b>  |
| Total Gross Profit \$                          | 1,450       | 1,472       | 1,498       | 1,503       | <b>5,923</b>  | 1,184       | 1,192       | 1,249       | 1,212       | <b>4,837</b>  |
| Total Gross Profit %                           | 29.2%       | 29.8%       | 30.9%       | 31.5%       | <b>30.4%</b>  | 27.4%       | 27.4%       | 29.7%       | 28.2%       | <b>28.2%</b>  |
| <b>Technology Services and Cloud Platforms</b> | <b>1Q14</b> | <b>2Q14</b> | <b>3Q14</b> | <b>4Q14</b> | <b>FY14</b>   | <b>1Q15</b> | <b>2Q15</b> | <b>3Q15</b> | <b>4Q15</b> | <b>FY15</b>   |
| Total External Revenue                         | 9,589       | 9,864       | 9,517       | 9,919       | <b>38,889</b> | 8,554       | 8,898       | 8,541       | 9,149       | <b>35,142</b> |
| Infrastructure Services                        | 6,364       | 6,481       | 6,339       | 6,349       | <b>25,533</b> | 5,614       | 5,817       | 5,714       | 5,929       | <b>23,075</b> |
| Technical Support Services                     | 2,072       | 2,109       | 2,104       | 1,992       | <b>8,276</b>  | 1,881       | 1,881       | 1,841       | 1,823       | <b>7,426</b>  |
| Integration Software                           | 1,153       | 1,274       | 1,075       | 1,578       | <b>5,080</b>  | 1,059       | 1,200       | 986         | 1,397       | <b>4,641</b>  |
| Total Gross Profit \$                          | 4,167       | 4,354       | 4,126       | 4,565       | <b>17,213</b> | 3,597       | 3,754       | 3,607       | 4,056       | <b>15,014</b> |
| Total Gross Profit %                           | 43.5%       | 44.1%       | 43.4%       | 46.0%       | <b>44.3%</b>  | 42.1%       | 42.2%       | 42.2%       | 44.3%       | <b>42.7%</b>  |
| Global Technology Services GP\$                | 3,176       | 3,243       | 3,205       | 3,169       | <b>12,793</b> | 2,699       | 2,717       | 2,774       | 2,819       | <b>11,008</b> |
| Global Technology Services GP%                 | 37.7%       | 37.8%       | 38.0%       | 38.0%       | <b>37.8%</b>  | 36.0%       | 35.3%       | 36.7%       | 36.4%       | <b>36.1%</b>  |
| Integration Software GP\$                      | 991         | 1,111       | 921         | 1,396       | <b>4,420</b>  | 898         | 1,037       | 833         | 1,237       | <b>4,005</b>  |
| Integration Software GP%                       | 86.0%       | 87.2%       | 85.7%       | 88.5%       | <b>87.0%</b>  | 84.8%       | 86.4%       | 84.5%       | 88.6%       | <b>86.3%</b>  |
| <b>Systems</b>                                 | <b>1Q14</b> | <b>2Q14</b> | <b>3Q14</b> | <b>4Q14</b> | <b>FY14</b>   | <b>1Q15</b> | <b>2Q15</b> | <b>3Q15</b> | <b>4Q15</b> | <b>FY15</b>   |
| Total External Revenue                         | 2,709       | 3,593       | 2,997       | 2,995       | <b>12,294</b> | 2,142       | 2,541       | 1,973       | 2,892       | <b>9,547</b>  |
| Systems Hardware                               | 2,142       | 3,014       | 2,432       | 2,404       | <b>9,991</b>  | 1,657       | 2,056       | 1,491       | 2,370       | <b>7,574</b>  |
| Operating Systems Software                     | 567         | 579         | 565         | 592         | <b>2,303</b>  | 484         | 485         | 482         | 522         | <b>1,973</b>  |
| Total Gross Profit \$                          | 1,226       | 1,709       | 1,321       | 1,733       | <b>5,988</b>  | 1,174       | 1,434       | 1,103       | 1,615       | <b>5,326</b>  |
| Total Gross Profit %                           | 45.2%       | 47.6%       | 44.1%       | 57.8%       | <b>48.7%</b>  | 54.8%       | 56.5%       | 55.9%       | 55.8%       | <b>55.8%</b>  |
| Systems Hardware GP\$                          | 729         | 1,197       | 827         | 1,193       | <b>3,947</b>  | 739         | 992         | 668         | 1,137       | <b>3,536</b>  |
| Systems Hardware GP%                           | 34.1%       | 39.7%       | 34.0%       | 49.6%       | <b>39.5%</b>  | 44.6%       | 48.2%       | 44.8%       | 48.0%       | <b>46.7%</b>  |

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|                                 |       |       |       |       |              |       |       |       |       |              |
|---------------------------------|-------|-------|-------|-------|--------------|-------|-------|-------|-------|--------------|
| Operating Systems Software GP\$ | 496   | 511   | 494   | 539   | <b>2,041</b> | 435   | 442   | 435   | 478   | <b>1,790</b> |
| Operating Systems Software GP%  | 87.4% | 88.3% | 87.5% | 91.2% | <b>88.6%</b> | 89.7% | 91.3% | 90.2% | 91.5% | <b>90.7%</b> |

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