INTERNATIONAL BUSINESS MACHINES CORP
Form 8-K
October 20, 2014

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: October 20, 2014

(Date of earliest event reported)

INTERNATIONAL BUSINESS MACHINES CORPORATION

(Exact name of registrant as specified in its charter)

New York	**1-2360**	**13-0871985**
(State of Incorporation)	(Commission File Number)	(IRS employer Identification No.)

ARMONK, NEW YORK	**10504**
(Address of principal executive offices)	(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))

Item 2.02. Results of Operations and Financial Condition.

The registrant s press release dated October 20, 2014, regarding its financial results for the periods ended September 30, 2014, including consolidated financial statements for the periods ended September 30, 2014, is Attachment I of this Form 8-K. Attachment II are the slides for IBM s Chief Financial Officer Martin Schroeter s third quarter earnings presentation on October 20, 2014, as well as certain reconciliation and other information (Non-GAAP Supplemental Materials) for information in Attachment I (press release), Attachment II (slides) and in Mr. Schroeter s presentation. All of the information in Attachment I and II is hereby filed.

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: October 20, 2014

By: /s/ James J. Kavanaugh

James J. Kavanaugh
Vice President and Controller
(Principal Accounting Officer)

ATTACHMENT I

IBM REPORTS 2014 THIRD-QUARTER RESULTS

NOTE: Results from continuing operations exclude discontinued Microelectronics business, to be acquired by GLOBALFOUNDRIES as announced today.

- **Diluted EPS from continuing operations:**
- **GAAP: $3.46, down 8 percent;**
- **Operating (non-GAAP): $3.68, down 10 percent;**
- **Net income from continuing operations:**
- **GAAP: $3.5 billion, down 17 percent;**
- **Operating (non-GAAP): $3.7 billion, down 18 percent;**
- **Consolidated results, including net loss on discontinued operations of $3.4 billion:**
- **Net income: $18 million**
- **EPS: $0.02**
- **Gross profit margin from continuing operations:**
- **GAAP: 48.6 percent, down 40 basis points;**
- **Operating (non-GAAP): 49.2 percent, down 90 basis points;**
- **Revenue from continuing operations: $22.4 billion:**
- **Down 4 percent; down 2 percent adjusting for divested customer care outsourcing business and currency;**
- **Strategic imperatives grew double digits year-to-date:**
- **Cloud revenue up more than 50 percent year-to-date;**
- **For cloud delivered as a service, up 80 percent year-to-date with a third-quarter annual run rate of $3.1 billion;**
- **Business analytics revenue up 8 percent year-to-date;**
- **Mobile revenue more than doubled year-to-date;**

- **Security revenue up more than 20 percent year-to-date;**

- **Impact of customer care outsourcing, industry standard server and Microelectronics business divestitures, based on full-year 2013:**

- **Generated more than $7.0 billion of annual revenue;**

- **Incurred more than $0.5 billion in annual pre-tax losses.**

ARMONK, N.Y., October 20, 2014 . . . IBM (NYSE: IBM) today announced third-quarter 2014 diluted earnings from continuing operations of $3.46 per share, compared with diluted earnings of $3.77 per share in the third-quarter of 2013, a decrease of 8 percent. Operating (non-GAAP) diluted earnings from continuing operations were $3.68 per share compared with operating diluted earnings of $4.08 per share in the third-quarter of 2013, a decrease of 10 percent.

Third-quarter net income from continuing operations was $3.5 billion compared with $4.1 billion in the third-quarter of 2013, a decrease of 17 percent. Operating (non-GAAP) net income from continuing operations was $3.7 billion, as compared with $4.5 billion in the third-quarter of 2013, a decrease of 18 percent.

For the third-quarter of 2014, IBM reported consolidated net income of $18 million or $0.02 of diluted earnings per share, which includes a net loss from discontinued operations of $3.4 billion, or $3.44 per diluted common share.

Total revenues from continuing operations for the third-quarter of 2014 of $22.4 billion were down 4 percent (down 2 percent, adjusting for the impact of the divested customer care outsourcing business and for currency) from the third-quarter of 2013.

We are disappointed in our performance. We saw a marked slowdown in September in client buying behavior, and our results also point to the unprecedented pace of change in our industry. While we did not produce the results we expected to achieve, we again performed well in our strategic growth areas cloud, data and analytics, security, social and mobile - where we continue to shift our business. We will accelerate this transformation, said Ginni Rometty, IBM chairman, president and chief executive officer.

We are executing on a clear strategy that is moving IBM to higher value, and we ve taken significant actions to exit nonstrategic elements of the business. This

includes the announcement that we will divest semiconductor manufacturing to focus on research and development that will differentiate our systems. We will continue to make the investments and the changes necessary to manage our business for the long term. And we remain fully committed to returning significant value to shareholders through dividends and share repurchase.

Discontinued Operations

The company has reached an agreement under which GLOBALFOUNDRIES will acquire IBM s Microelectronics OEM semiconductor business and manufacturing operations. The transaction with GLOBALFOUNDRIES is expected to close in 2015. The results from continuing operations exclude the Microelectronics business, which is presented separately as discontinued operations.

The loss from discontinued operations in the third quarter includes a non-recurring pre-tax charge of $4.7 billion, or $3.3 billion, net of tax. The charge includes an impairment to reflect fair value less estimated costs to sell the Microelectronics business assets, which the company has classified as held for sale at September 30, 2014. The charge also includes other estimated costs related to the transaction, including cash consideration expected to be transferred to GLOBALFOUNDRIES of approximately $1.5 billion. The cash consideration is expected to be paid to GLOBALFOUNDRIES over the next three years and will be adjusted by the amount of the working capital due by GLOBALFOUNDRIES to IBM, estimated to be $0.2 billion. In addition, discontinued operations includes operational net losses from the Microelectronics business of $0.1 billion in both the third quarter of 2014 and the third quarter of 2013.

Third-Quarter GAAP Operating (non-GAAP) Reconciliation

Third-quarter operating (non-GAAP) diluted earnings from continuing operations exclude $0.22 per share of charges; $0.16 per share for the amortization of purchased intangible assets and other acquisition-related charges; and $0.06 per share for retirement-related charges driven by changes to plan assets and liabilities primarily related to market performance.

Earnings Guidance

The company will provide earnings guidance during today s quarterly earnings conference call, and it is included in the presentation charts.

Geographic Regions

The Americas third-quarter revenues were $10.1 billion, a decrease of 2 percent (down 1 percent, adjusting for currency) from the 2013 period. Revenues from Europe/Middle East/Africa were down 2 percent to $7.2 billion (down 3 percent, adjusting for currency). Asia-Pacific revenues decreased 9 percent (down 8 percent, adjusting for currency) to $5.0 billion.

Growth Markets

Revenues from the company s growth markets were down 6 percent (down 5 percent, adjusting for currency). Revenues in the BRIC countries Brazil, Russia, India and China were down 7 percent (down 7 percent, adjusting for currency).

Services

Global Services segment revenues decreased 3 percent (flat adjusting for the impact of the divested customer care outsourcing business and for currency) to $13.7 billion. Global Technology Services segment revenues decreased 3 percent (up 1 percent adjusting for the impact of the divested customer care outsourcing business and for currency) to $9.2 billion. Global Business Services segment revenues were down 2 percent (down 1 percent, adjusting for currency) to $4.5 billion.

Pre-tax income from Global Technology Services decreased 11 percent and pre-tax margin decreased to 17.7 percent. Global Business Services pre-tax income decreased 15 percent and pre-tax margin decreased to 17.5 percent.

The estimated services backlog at September 30, 2014 was $128 billion, down 7 percent year to year adjusting for the divested customer care outsourcing business (down 2 percent, adjusting for currency).

Software

Revenues from the Software segment were $5.7 billion, down 2 percent (down 2 percent, adjusting for currency) compared with the third-quarter of 2013. Software pre-tax income decreased 3 percent and pre-tax margin decreased to 35.5 percent.

Revenues from IBM s key middleware products, which include WebSphere, Information Management, Tivoli, Workforce Solutions and Rational products, were $3.7 billion, down 1 percent (down 1 percent, adjusting for currency) versus the third-quarter of 2013. Operating systems revenues of $513 million were down 11 percent (down 11 percent, adjusting for currency) compared with the prior-year quarter.

Financing

Global Financing segment revenues decreased 3 percent (down 3 percent, adjusting for currency) in the third-quarter to $487 million. Pre-tax income for the segment decreased 4 percent to $475 million.

Hardware

Revenues from continuing operations from the Systems and Technology segment totaled $2.4 billion for the quarter, down 15 percent (down 15 percent, adjusting for currency) from the third-quarter of 2013. Systems and Technology pre-tax loss increased $91 million to a loss of $99 million.

Revenues from Power Systems were down 12 percent compared with the 2013 period. Revenues from System x were down 10 percent. Revenues from System z mainframe server products decreased 35 percent compared with the year-ago period. Revenues from System Storage decreased 6 percent.

Gross Profit

The company s total gross profit margin from continuing operations was 48.6 percent in the 2014 third-quarter period compared with 49.0 percent in the 2013 third-quarter period. Total operating (non-GAAP) gross profit margin from continuing operations was 49.2 percent in the 2014 third-quarter compared with 50.1 percent in the 2013 third-quarter period.

Expense

Total expense and other income from continuing operations increased 1 percent to $6.5 billion compared with the prior year period. S,G&A expense of $5.3 billion was flat year over year. R,D&E expense of $1.4 billion was flat compared with the year-ago period. Intellectual property and custom development income decreased to $145 million compared with $191 million a year ago. Other (income) and expense was income of $103 million compared with prior-year income of $63 million. Interest expense increased to $126 million compared with $97 million in the prior year period.

Total operating (non-GAAP) expense and other income from continuing operations increased 2 percent to $6.4 billion compared with the prior-year period. Operating (non-GAAP) S,G&A expense increased 2 percent to $5.1 billion compared with the

prior-year period. Operating (non-GAAP) R,D&E expense of $1.4 billion was up 2 percent compared with the year-ago period.

Pre-Tax Income

Pre-tax income from continuing operations decreased 12 percent to $4.4 billion and pre-tax margin of 19.5 percent was down 1.8 points compared with the prior-year period. Operating (non-GAAP) pre-tax income decreased 15 percent to $4.6 billion and pre-tax margin was 20.7 percent, down 2.6 points, compared to the year-ago period.

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IBM s tax rate from continuing operations was 20.8 percent, up 4.0 points year over year; operating (non-GAAP) tax rate was 20.8 percent, up 3.2 points compared to the year-ago period. The change in the third-quarter tax rate is driven by discrete benefits associated with foreign tax audits in the third-quarter 2013.

Net income margin from continuing operations decreased 2.3 points to 15.4 percent. Total operating (non-GAAP) net income margin decreased 2.8 points to 16.4 percent.

The weighted-average number of diluted common shares outstanding in the third-quarter 2014 was 998 million compared with 1.10 billion shares in the same period of 2013. As of September 30, 2014, there were 990 million basic common shares outstanding.

Debt, including Global Financing, totaled $45.7 billion, compared with $39.7 billion at year-end 2013. From a management segment view, Global Financing debt totaled $28.6 billion versus $27.5 billion at year-end 2013, resulting in a debt-to-equity ratio of 7.4 to 1. Non-global financing debt totaled $17.1 billion, an increase of $4.8 billion since year-end 2013, resulting in a debt-to-capitalization ratio of 61.9 percent (higher than the ratio at year-end 2013).

IBM ended the third-quarter 2014 with $9.6 billion of cash on hand and generated free cash flow of $2.2 billion, excluding Global Financing receivables, down approximately $0.1 billion year over year. In the third quarter of 2014, the company returned $2.8 billion to shareholders through $1.1 billion in dividends and $1.7 billion of gross share repurchases.

At the end of September 2014, IBM had approximately $1.4 billion remaining from the current share repurchase authorization. The company expects to request an additional share repurchase authorization at the October 2014 board meeting.

Year-To-Date 2014 Results

Net income from continuing operations for the nine months ended September 30, 2014 was $10.2 billion compared with $10.7 billion in the year-ago period, a decrease of 4 percent. Diluted earnings per share from continuing operations were $10.09, up 5 percent compared to the 2013 period. The consolidated diluted earnings per share were $6.44 as compared to $9.27, down 31 percent as compared to the 2013 period. Revenues from continuing operations for the nine-month period totaled $68.7 billion, a decrease of 3 percent (down 3 percent, adjusting for currency) compared with $71.0 billion for the first nine months of 2013.

Operating (non-GAAP) net income from continuing operations for the nine months ended September 30, 2014 was $10.9 billion compared with $11.7 billion in the year-ago period, a decrease of 7 percent. Operating (non-GAAP) diluted earnings per share from continuing operations were $10.76 compared with $10.54 per diluted share for the 2013 period, an increase of 2 percent.

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. Forward-looking statements are based on the company s current assumptions regarding future business and financial performance. These statements involve a number of risks, uncertainties and other factors that could cause actual results to differ materially, including the following: a downturn in economic environment and client spending budgets; the company s failure to meet growth and productivity objectives; a failure of the company s innovation initiatives; risks from investing in growth opportunities; failure of the company s intellectual property portfolio to prevent competitive offerings and the failure of the company to obtain necessary licenses; cybersecurity and data privacy considerations; fluctuations in financial results, impact of local legal, economic, political and health conditions; adverse effects from environmental matters, tax matters and the company s pension plans; ineffective internal controls; the company s use of accounting estimates; the company s ability to attract and retain key personnel and its reliance on critical skills; impacts of

relationships with critical suppliers and business with government clients; currency fluctuations and customer financing risks; impact of changes in market liquidity conditions and customer credit risk on receivables; reliance on third party distribution channels; the company s ability to successfully manage acquisitions, alliances and dispositions; risks from legal proceedings; risk factors related to IBM securities; and other risks, uncertainties and factors discussed in the company s Form 10-Qs, 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. Any forward-looking statement in this release speaks only as of the date on which it is made. 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 and expectations

- presenting operating (non-GAAP) earnings per share from continuing operations amounts and related income statement items;
- presenting non-global financing debt-to-capitalization ratio;
- adjusting for free cash flow;
- adjusting for currency (i.e., at constant currency).

The rationale for management s use of non-GAAP measures is included as part of the supplemental materials presented within the third-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 Supplemental 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 8:00 a.m. EDT, today. The Webcast may be accessed via a link at http://www.ibm.com/investor/events/earnings/3q14.html. Presentation charts will be available shortly before the Webcast.

Financial Results Below (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 September 30,			Nine Months Ended September 30,		
	2014	2013*	Percent Change	2014	2013*	Percent Change
REVENUE						
Global Technology Services	$ 9,218	$ 9,494	-2.9%	$ 27,962	$ 28,634	-2.3%
Gross profit margin	38.5%	39.0%		38.3%	37.9%	
Global Business Services	4,459	4,558	-2.2%	13,476	13,649	-1.3%
Gross profit margin	31.3%	32.9%		30.4%	30.9%	
Software	5,708	5,798	-1.6%	17,857	17,792	0.4%
Gross profit margin	87.6%	88.0%		88.0%	88.0%	
Systems and Technology	2,434	2,864	-15.0%	7,590	9,041	-16.0%
Gross profit margin	33.9%	39.9%		36.3%	40.2%	
Global Financing	487	502	-3.2%	1,502	1,488	1.0%
Gross profit margin	47.8%	47.2%		49.6%	46.4%	
Other	92	122	-24.3%	292	378	-22.8%
Gross profit margin	-143.8%	-211.6%		-162.5%	-185.3%	
TOTAL REVENUE	22,397	23,338	-4.0%	68,680	70,982	-3.2%
GROSS PROFIT	10,874	11,429	-4.9%	33,545	34,347	-2.3%
Gross profit margin	48.6%	49.0%		48.8%	48.4%	
EXPENSE AND OTHER INCOME						
S,G&A	5,281	5,260	0.4%	17,146	17,463	-1.8%
Expense to revenue	23.6%	22.5%		25.0%	24.6%	
R,D&E	1,354	1,356	-0.1%	4,117	4,291	-4.0%
Expense to revenue	6.0%	5.8%		6.0%	6.0%	
Intellectual property and custom development income	(145)	(191)	-23.9%	(543)	(621)	-12.5%
Other (income) and expense	(103)	(63)	62.3%	(433)	(217)	99.3%
Interest expense	126	97	30.2%	367	289	26.9%
TOTAL EXPENSE AND OTHER INCOME	6,513	6,458	0.9%	20,654	21,205	-2.6%
Expense to revenue	29.1%	27.7%		30.1%	29.9%	
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME	4,361	4,972	-12.3%	12,891	13,142	-1.9%

TAXES										
Pre-tax margin		19.5%		21.3%			18.8%		18.5%	
Provision for income taxes		906		832	8.8%		2,655		2,478	7.1%
Effective tax rate		20.8%		16.7%			20.6%		18.9%	
INCOME FROM CONTINUING OPERATIONS	$	3,455	$	4,139	-16.5%	$	10,237	$	10,665	-4.0%
Net margin		15.4%		17.7%			14.9%		15.0%	
DISCONTINUED OPERATIONS										
Loss from discontinued operations, net of taxes		(3,437)		(98)			(3,698)		(366)	
NET INCOME	$	18	$	4,041	-99.6%	$	6,539	$	10,299	-36.5%
EARNINGS PER SHARE OF COMMON STOCK:										
ASSUMING DILUTION										
CONTINUING OPERATIONS	$	3.46	$	3.77	-8.2%	$	10.09	$	9.60	5.1%
DISCOUNTINUED OPERATIONS	$	(3.44)	$	(0.09)		$	(3.65)	$	(0.33)	
TOTAL	$	0.02	$	3.68	-99.5%	$	6.44	$	9.27	-30.5%
BASIC										
CONTINUING OPERATIONS	$	3.48	$	3.79	-8.2%	$	10.15	$	9.68	4.9%
DISCOUNTINUED OPERATIONS	$	(3.46)	$	(0.09)		$	(3.67)	$	(0.33)	
TOTAL	$	0.02	$	3.70	-99.5%	$	6.48	$	9.35	-30.7%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (M s):										
ASSUMING DILUTION		997.7		1,098.8			1,014.9		1,110.7	
BASIC		991.8		1,090.9			1,008.9		1,101.8	

*** Reclassified to reflect discontinued operations presentation.**

INTERNATIONAL BUSINESS MACHINES CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

(Dollars in Millions)	At September 30, 2014	At December 31, 2013
ASSETS:		
Current Assets:		
Cash and cash equivalents	$ 9,561	$ 10,716
Marketable securities	4	350
Notes and accounts receivable - trade (net of allowances of $316 in 2014 and $291 in 2013)	9,122	10,465
Short-term financing receivables (net of allowances of $432 in 2014 and $308 in 2013)	17,411	19,787
Other accounts receivable (net of allowances of $46 in 2014 and $36 in 2013)	1,469	1,584
Inventories, at lower of average cost or market:		
Finished goods	508	444
Work in process and raw materials	1,848	1,866
Total inventories	2,356	2,310
Deferred taxes	2,219	1,651
Prepaid expenses and other current assets	5,022	4,488
Total Current Assets	**47,163**	**51,350**
Property, plant and equipment	39,950	40,475
Less: Accumulated depreciation	28,882	26,654
Property, plant and equipment - net	11,068	13,821
Long-term financing receivables (net of allowances of $87 in 2014 and $80 in 2013)	10,993	12,755
Prepaid pension assets	7,443	5,551
Deferred taxes	2,697	3,051
Goodwill	31,045	31,184
Intangible assets - net	3,373	3,871
Investments and sundry assets	5,126	4,639
Total Assets	**$ 118,911**	**$ 126,223**
LIABILITIES:		
Current Liabilities:		
Taxes	$ 2,475	$ 4,633
Short-term debt	12,876	6,862
Accounts payable	5,855	7,461
Compensation and benefits	3,965	3,893
Deferred income	11,346	12,557
Other accrued expenses and liabilities	5,788	4,748
Total Current Liabilities	**42,306**	**40,154**
Long-term debt	32,821	32,856

Retirement and nonpension postretirement benefit obligations	15,093	16,242
Deferred income	3,683	4,108
Other liabilities	10,613	9,934
Total Liabilities	**104,515**	**103,294**
EQUITY:		
IBM Stockholders Equity:		
Common stock	52,446	51,594
Retained earnings	133,403	130,042
Treasury stock at cost	(150,616)	(137,242)
Accumulated other comprehensive income/(loss)	(20,978)	(21,602)
Total IBM stockholders equity	**14,255**	**22,792**
Noncontrolling interests	140	137
Total Equity	**14,395**	**22,929**
Total Liabilities and Equity	**$ 118,911**	**$ 126,223**

INTERNATIONAL BUSINESS MACHINES CORPORATION

CASH FLOW ANALYSIS

(Unaudited)

(Dollars in Millions)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Net Cash from Operating Activities per GAAP:	**$ 3,904**	**$ 3,760**	**$ 10,809**	**$ 10,957**
Less: the change in Global Financing (GF) Receivables	719	481	2,223	1,628
Net Cash from Operating Activities (Excluding GF Receivables)	**3,185**	**3,279**	**8,587**	**9,329**
Capital Expenditures, Net	(1,008)	(1,041)	(2,803)	(2,709)
Free Cash Flow (Excluding GF Receivables)	**2,177**	**2,238**	**5,783**	**6,620**
Acquisitions	(47)	(2,382)	(650)	(2,562)
Divestitures	81	235	489	247
Dividends	(1,090)	(1,037)	(3,176)	(3,033)
Share Repurchase	(1,719)	(1,917)	(13,547)	(8,062)
Non-GF Debt	(483)	1,351	4,536	1,556
Other (includes GF Receivables, and GF Debt)	925	1,388	5,065	4,337
Change in Cash, Cash Equivalents and Short-term Marketable Securities	**$ (156)**	**$ (125)**	**$ (1,501)**	**$ (897)**

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

	THIRD-QUARTER 2014				
	Revenue			Pre-tax Income/ (Loss)	
(Dollars in Millions)	External	Internal	Total	Continuing Operations	Pre-tax Margin
SEGMENTS					
Global Technology Services	$ 9,218	$ 252	$ 9,470	$ 1,680	17.7%
Y-T-Y change	-2.9%	-3.8%	-2.9%	-11.3%	
Global Business Services	4,459	135	4,594	805	17.5%
Y-T-Y change	-2.2%	-23.7%	-3.0%	-15.0%	

Software	5,708	862	6,570	2,333	35.5%
Y-T-Y change	-1.6%	15.9%	0.4%	-3.2%	
Systems and Technology	2,434	182	2,616	(99)	-3.8%
Y-T-Y change	-15.0%	8.7%	-13.7%	NM	
Global Financing	487	598	1,084	475	43.9%
Y-T-Y change	-3.2%	16.7%	6.9%	-3.7%	
TOTAL REPORTABLE SEGMENTS	**$ 22,305**	**$ 2,029**	**$ 24,334**	**$ 5,195**	**21.3%**
Y-T-Y change	**-3.9%**	**8.9%**	**-3.0%**	**-9.5%**	
Eliminations / Other	92	(2,029)	(1,937)	(835)	
TOTAL IBM CONSOLIDATED	**$ 22,397**	**$ 0**	**$ 22,397**	**$ 4,361**	**19.5%**
Y-T-Y change	**-4.0%**		**-4.0%**	**-12.3%**	

	THIRD-QUARTER 2013*				
(Dollars in Millions)	External	Revenue Internal	Total	Pre-tax Income/ (Loss) Continuing Operations	Pre-tax Margin
SEGMENTS					
Global Technology Services	$ 9,494	$ 262	$ 9,755	$ 1,895	19.4%
Global Business Services	4,558	177	4,735	948	20.0%
Software	5,798	744	6,542	2,410	36.8%
Systems and Technology*	2,864	168	3,032	(8)	-0.3%
Global Financing	502	512	1,015	494	48.7%
TOTAL REPORTABLE SEGMENTS	**$ 23,216**	**$ 1,863**	**$ 25,079**	**$ 5,738**	**22.9%**
Eliminations / Other	122	(1,863)	(1,741)	(766)	
TOTAL IBM CONSOLIDATED	**$ 23,338**	**$ 0**	**$ 23,338**	**$ 4,972**	**21.3%**

*** Reclassified to reflect discontinued operations presentation.**

NM = Not Meaningful

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

	NINE-MONTHS 2014				
(Dollars in Millions)	**External**	**Revenue Internal**	**Total**	**Pre-tax Income/ (Loss) Continuing Operations**	**Pre-tax Margin**
SEGMENTS					
Global Technology Services	$ 27,962	$ 739	$ 28,701	$ 4,876	17.0%
Y-T-Y change	-2.3%	-7.8%	-2.5%	-2.4%	
Global Business Services	13,476	416	13,892	2,266	16.3%
Y-T-Y change	-1.3%	-23.7%	-2.1%	-0.3%	
Software	17,857	2,652	20,508	6,935	33.8%
Y-T-Y change	0.4%	14.7%	2.0%	1.0%	
Systems and Technology	7,590	541	8,131	(354)	-4.4%
Y-T-Y change	-16.0%	27.9%	-14.1%	167.1%	
Global Financing	1,502	1,900	3,403	1,664	48.9%
Y-T-Y change	1.0%	16.7%	9.2%	5.2%	
TOTAL REPORTABLE SEGMENTS	**$ 68,387**	**$ 6,248**	**$ 74,635**	**$ 15,386**	**20.6%**
Y-T-Y change	**-3.1%**	**9.4%**	**-2.2%**	**-1.3%**	
Eliminations / Other	292	(6,248)	(5,955)	(2,495)	
TOTAL IBM CONSOLIDATED	**$ 68,680**	**$ 0**	**$ 68,680**	**$ 12,891**	**18.8%**
Y-T-Y change	**-3.2%**		**-3.2%**	**-1.9%**	

	NINE-MONTHS 2013*				
(Dollars in Millions)	**External**	**Revenue Internal**	**Total**	**Pre-tax Income (Loss)/ Continuing Operations**	**Pre-tax Margin**
SEGMENTS					
Global Technology Services	$ 28,634	$ 801	$ 29,435	$ 4,994	17.0%
Global Business Services	13,649	545	14,194	2,274	16.0%
Software	17,792	2,312	20,105	6,867	34.2%
Systems and Technology*	9,041	423	9,464	(133)	-1.4%
Global Financing	1,488	1,628	3,116	1,582	50.8%
TOTAL REPORTABLE SEGMENTS	**$ 70,604**	**$ 5,710**	**$ 76,314**	**$ 15,583**	**20.4%**

Eliminations / Other	378	(5,710)	(5,331)	(2,441)	
TOTAL IBM CONSOLIDATED	**$ 70,982**	**$ 0**	**$ 70,982**	**$ 13,142**	**18.5%**

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INTERNATIONAL BUSINESS MACHINES CORPORATION

U.S. GAAP TO OPERATING RESULTS RECONCILIATION

(Unaudited; Dollars in millions except per share amounts)

	THIRD-QUARTER 2014 CONTINUING OPERATIONS			
	GAAP	Acquisition-Related Adjustments*	Retirement-Related Adjustments**	Operating (Non-GAAP)
Gross Profit	$ 10,874	$ 106	$ 43	$ 11,023
Gross Profit Margin	48.6%	0.5Pts	0.2Pts	49.2%
S,G&A	5,281	(96)	(48)	5,137
R,D&E	1,354		19	1,373
Other (Income) & Expense	(103)	0		(103)
Total Expense & Other (Income)	6,513	(96)	(29)	6,389
Pre-Tax Income from Continuing Operations	4,361	202	71	4,634
Pre-Tax Income Margin from Continuing Operations	19.5%	0.9Pts	0.3Pts	20.7%
Provision for Income Taxes* **	906	42	14	963
Effective Tax Rate	20.8%	0.0Pts	0.0Pts	20.8%
Income from Continuing Operations	3,455	159	57	3,671
Income Margin from Continuing Operations	15.4%	0.7Pts	0.3Pts	16.4%
Loss from Discontinued Operations Net of Taxes	(3,437)			(3,437)
Net Income	18	159	57	234
Diluted Earnings Per Share:				
Continuing Operations	$ 3.46	$ 0.16	$ 0.06	$ 3.68
Discontinued Operations	$ (3.44)			$ (3.44)

	THIRD-QUARTER 2013**** CONTINUING OPERATIONS			
	GAAP	Acquisition-Related Adjustments*	Retirement-Related Adjustments**	Operating (Non-GAAP)
Gross Profit	$ 11,429	$ 102	$ 154	$ 11,686
Gross Profit Margin	49.0%	0.4Pts	0.7Pts	50.1%
S,G&A	5,260	(111)	(89)	5,060
R,D&E	1,356		(14)	1,342
Other (Income) & Expense	(63)	(1)		(64)
Total Expense & Other (Income)	6,458	(112)	(103)	6,243
Pre-Tax Income from Continuing Operations	4,972	214	257	5,443
Pre-Tax Income Margin from Continuing Operations	21.3%	0.9Pts	1.1Pts	23.3%
Provision for Income Taxes* **	832	48	77	958
Effective Tax Rate	16.7%	0.2Pts	0.6Pts	17.6%
Income from Continuing Operations	4,139	166	181	4,485
Income Margin from Continuing Operations	17.7%	0.7Pts	0.8Pts	19.2%
Loss from Discontinued Operations Net of Taxes	(98)			(98)
Net Income	4,041	166	181	4,387
Diluted Earnings Per Share:				
Continuing Operations	$ 3.77	$ 0.15	$ 0.16	$ 4.08
Discontinued Operations	$ (0.09)			$ (0.09)

*** Includes amortization of acquired intangible assets and other acquisition-related charges.**

**** Includes retirement-related items driven by changes to plan assets and liabilities primarily related to market performance.**

***** Tax impact on operating (non-GAAP) pre-tax income from continuing operations is calculated under the same accounting principles applied to the GAAP pre-tax income which employs an annual effective tax rate method to the results.**

****** Reclassified to reflect discontinued operations presentation.**

INTERNATIONAL BUSINESS MACHINES CORPORATION

U.S. GAAP TO OPERATING RESULTS RECONCILIATION

(Unaudited; Dollars in millions except per share amounts)

	NINE-MONTHS 2014 CONTINUING OPERATIONS			
	GAAP	Acquisition-Related Adjustments*	Retirement-Related Adjustments**	Operating (Non-GAAP)
Gross Profit	$ 33,545	$ 315	$ 141	$ 34,001
Gross Profit Margin	48.8%	0.5Pts	0.2Pts	49.5%
S,G&A	17,146	(291)	(162)	16,693
R,D&E	4,117		56	4,173
Other (Income) & Expense	(433)	0		(433)
Total Expense & Other (Income)	20,654	(292)	(106)	20,257
Pre-Tax Income from Continuing Operations	12,891	607	246	13,744
Pre-Tax Income Margin from Continuing Operations	18.8%	0.9Pts	0.4Pts	20.0%
Provision for Income Taxes* **	2,655	123	49	2,827
Effective Tax Rate	20.6%	0.0Pts	0.0Pts	20.6%
Income from Continuing Operations	10,237	483	197	10,917
Income Margin from Continuing Operations	14.9%	0.7Pts	0.3Pts	15.9%
Loss from Discontinued Operations Net of Taxes	(3,698)			(3,698)
Net Income	6,539	483	197	7,219
Diluted Earnings Per Share:				
Continuing Operations	$ 10.09	$ 0.48	$ 0.19	$ 10.76
Discontinued Operations	$ (3.65)			$ (3.65)

	NINE-MONTHS 2013**** CONTINUING OPERATIONS			
	GAAP	Acquisition-Related Adjustments*	Retirement-Related Adjustments**	Operating (Non-GAAP)
Gross Profit	$ 34,347	$ 289	$ 474	$ 35,110
Gross Profit Margin	48.4%	0.4Pts	0.7Pts	49.5%
S,G&A	17,463	(294)	(286)	16,884
R,D&E	4,291		(43)	4,248
Other (Income) & Expense	(217)	(8)		(225)
Total Expense & Other (Income)	21,205	(302)	(329)	20,574
Pre-Tax Income from Continuing Operations	13,142	590	803	14,536
Pre-Tax Income Margin from Continuing Operations	18.5%	0.8Pts	1.1Pts	20.5%
Provision for Income Taxes* **	2,478	112	239	2,828
Effective Tax Rate	18.9%	0.0Pts	0.6Pts	19.5%
Income from Continuing Operations	10,665	479	564	11,708
Income Margin from Continuing Operations	15.0%	0.7Pts	0.8Pts	16.5%
Loss from Discontinued Operations Net of Taxes	(366)			(366)
Net Income	10,299	479	564	11,342
Diluted Earnings Per Share:				
Continuing Operations	$ 9.60	$ 0.43	$ 0.51	$ 10.54
Discontinued Operations	$ (0.33)			$ (0.33)

*** Includes amortization of acquired intangible assets and other acquisition-related charges.**

**** Includes retirement-related items driven by changes to plan assets and liabilities primarily related to market performance.**

***** Tax impact on operating (non-GAAP) pre-tax income from continuing operations is calculated under the same accounting principles applied to the GAAP pre-tax income which employs an annual effective tax rate method to the results.**

****** Reclassified to reflect discontinued operations presentation.**

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ATTACHMENT II