INTERNATIONAL BUSINESS MACHINES CORP
Form 8-K
January 20, 2015

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: **January 20, 2015**

(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 January 20, 2015, regarding its financial results for the periods ended December 31, 2014, including consolidated financial statements for the periods ended December 31, 2014, is Attachment I of this Form 8-K. Attachment II are the slides for IBM s Chief Financial Officer Martin Schroeter s fourth quarter earnings presentation on January 20, 2015, 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: January 20, 2015

By: /s/ Stanley J. Sutula III

Stanley J. Sutula III
Vice President and Controller

ATTACHMENT I

IBM REPORTS 2014 FOURTH-QUARTER AND FULL-YEAR RESULTS

Fourth-Quarter 2014:

- **Diluted EPS from continuing operations:**
- **GAAP: $5.54, down 4 percent;**
- **Operating (non-GAAP): $5.81, down 6 percent;**
- **Pre-tax income from continuing operations:**
- **GAAP: $7.1 billion, flat year-to-year;**
- **Operating (non-GAAP): $7.4 billion, down 2 percent;**
- **Net income from continuing operations:**
- **GAAP: $5.5 billion, down 11 percent;**
- **Operating (non-GAAP): $5.8 billion, down 13 percent;**
- **Gross profit margin from continuing operations:**
- **GAAP: 53.3 percent, up 100 basis points;**
- **Operating (non-GAAP): 53.9 percent, up 60 basis points;**
- **Revenue from continuing operations: $24.1 billion:**
- **Down 12 percent; down 2 percent adjusting for divested businesses and currency.**

Full-Year 2014:

- **Diluted EPS from continuing operations:**
- **GAAP: $15.59, up 2 percent;**
- **Operating (non-GAAP): $16.53, down 1 percent;**
- **Pre-tax income from continuing operations:**

- **GAAP: $20.0 billion, down 1 percent;**
- **Operating (non-GAAP): $21.1 billion, down 4 percent;**
- **Net income from continuing operations:**
- **GAAP: $15.8 billion, down 7 percent;**
- **Operating (non-GAAP): $16.7 billion, down 9 percent;**
- **Gross profit margin from continuing operations:**
- **GAAP: 50.0 percent, up 50 basis points;**
- **Operating (non-GAAP): 50.6 percent, up 10 basis points;**
- **Revenue from continuing operations: $92.8 billion:**
- **Down 6 percent; down 1 percent adjusting for divested businesses and currency;**
- **Strategic imperatives grew 16 percent to $25 billion, and now represent 27 percent of total IBM revenue:**
- **Total Cloud revenue of $7 billion, up 60 percent;**
- **Cloud delivered as a service revenues of $3 billion, up approximately 75 percent;**
- **Year-end annual run rate of $3.5 billion for cloud delivered as a service;**
- **Business analytics revenue up 7 percent to nearly $17 billion;**
- **Mobile revenue more than tripled;**
- **Security revenue up 19 percent.**

ARMONK, N.Y., January 20, 2015 . . . IBM (NYSE: IBM) today announced fourth-quarter 2014 diluted earnings from continuing operations of $5.54 per share, compared with diluted earnings of $5.76 per share in the fourth-quarter of 2013, a decrease of 4 percent. Operating (non-GAAP) diluted earnings from continuing operations were $5.81 per share compared with operating diluted earnings of $6.16 per share in the fourth-quarter of 2013, a decrease of 6 percent.

Fourth-quarter net income from continuing operations was $5.5 billion compared with $6.2 billion in the fourth-quarter of 2013, a decrease of 11 percent. Operating (non-GAAP) net income from continuing operations was $5.8 billion, as compared with $6.6 billion in the fourth-quarter of 2013, a decrease of 13 percent.

For the fourth-quarter of 2014, IBM reported consolidated net income of $5.5 billion or $5.51 of diluted earnings per share, including operating net losses in discontinued operations related to the microelectronics manufacturing business.

Total revenues from continuing operations for the fourth-quarter of 2014 of $24.1 billion were down 12 percent (down 2 percent, adjusting for the impact of the divested customer care outsourcing and System x businesses and for currency) from the fourth-quarter of 2013 and were down 1 percent for the full year 2014, adjusting for the impact of the divested businesses and for currency.

We are making significant progress in our transformation, continuing to shift IBM s business to higher value, and investing and positioning ourselves for the longer term, said Ginni Rometty, IBM chairman, president and chief executive officer.

In 2014, we repositioned our hardware portfolio for higher value, maintained a services backlog of $128 billion and achieved strong revenue growth across cloud, analytics, mobile, social and security. Together these strategic imperatives grew 16 percent in 2014 and now represent $25 billion and 27 percent of our revenue.

Fourth-Quarter GAAP Operating (non-GAAP) Reconciliation

Fourth-quarter operating (non-GAAP) diluted earnings from continuing operations exclude $0.27 per share of charges; $0.19 per share for the amortization of purchased intangible assets and other acquisition-related charges; and $0.08 per share for retirement-related charges driven by changes to plan assets and liabilities primarily related to market performance.

Full-Year 2015 Expectations

The company will provide 2015 earnings expectations during today s quarterly earnings conference call.

Geographic Regions

The Americas fourth-quarter revenues were $11.1 billion, a decrease of 9 percent (down 4 percent, adjusting for divested businesses and currency) from the 2013 period. Revenues from Europe/Middle East/Africa were down 13 percent to $8.0 billion (down 1 percent, adjusting for divested businesses and currency). Asia-Pacific revenues decreased 17 percent (down 2 percent, adjusting for divested businesses and currency) to $4.9 billion.

Growth Markets and Major Markets

Revenues from the company s growth markets were down 16 percent (down 2 percent, adjusting for divested businesses and currency). Revenues in the BRIC countries Brazil, Russia, India and China were down 21 percent (down 8 percent, adjusting for divested businesses and currency). China revenues were down 1 percent, adjusting for divested businesses and currency. Revenues from the company s major markets were down 11 percent (down 2 percent, adjusting for divested businesses and currency).

Services

Global Services segment revenues decreased 8 percent (flat adjusting for the impact of the divested customer care outsourcing and System x businesses and for currency) to $13.5 billion. Global Technology Services segment revenues decreased 8 percent (up 2 percent adjusting for the impact of the divested customer care outsourcing and System x businesses and for currency) to $9.2 billion. Global Business Services segment revenues were down 8 percent (down 3 percent, adjusting for currency) to $4.3 billion.

Pre-tax income from Global Technology Services decreased 26 percent and pre-tax margin decreased to 15.6 percent. Global Business Services pre-tax income decreased 22 percent and pre-tax margin decreased to 16.4 percent. Pre-tax income and margin include the impact of the fourth-quarter workforce rebalancing charge.

The estimated services backlog at December 31, 2014 was $128 billion, flat year to year adjusting for the divested customer care outsourcing and System x businesses and currency.

Software

Revenues from the Software segment were $7.6 billion, down 7 percent (down 3 percent, adjusting for currency) compared with the fourth-quarter of 2013. Software pre-tax income decreased 11 percent and pre-tax margin decreased to 44.7 percent. Pre-tax income and margin include the impact of the fourth-quarter workforce rebalancing charge.

Revenues from IBM s key middleware products, which include WebSphere, Information Management, Tivoli, Workforce Solutions and Rational products, were $5.4 billion, down 6 percent (down 3 percent, adjusting for currency) versus the fourth-quarter of 2013. Operating systems revenues of $557 million were down 19 percent (down 16 percent, adjusting for currency) compared with the prior-year quarter.

Financing

Global Financing segment revenues were flat (up 5 percent, adjusting for currency) in the fourth-quarter to $532 million. Pre-tax income for the segment decreased 11 percent to $526 million.

Hardware

Revenues from continuing operations for the Systems and Technology segment totaled $2.4 billion for the quarter, down 39 percent (down 12 percent, adjusting for the impact of the divested System x business and currency) from the fourth-quarter of 2013. Systems and Technology pre-tax income increased 12 percent and pre-tax margin increased to 15.5 percent. Pre-tax income and margin include the impact of the fourth-quarter workforce rebalancing charge.

Revenues from Power Systems were down 13 percent (down 11 percent, adjusting for currency) compared with the 2013 period. Revenues from System z mainframe server products decreased 26 percent (down 23 percent, adjusting for currency). Revenues from System Storage decreased 8 percent (down 5 percent, adjusting for currency).

Gross Profit

The company s total gross profit margin from continuing operations was 53.3 percent in the 2014 fourth-quarter period compared with 52.4 percent in the 2013 fourth-quarter period. Total operating (non-GAAP) gross profit margin from continuing operations was 53.9 percent in the 2014 fourth-quarter compared with 53.3 percent in the 2013 fourth-quarter period.

Expense

Total reported expense and other income from continuing operations declined 20 percent to $5.8 billion compared with the prior year period. The reported reduction was driven by the gain of $1.4 billion ($1.1 billion pre-tax income benefit, net of related transaction and performance-based costs) from the divestiture of the System x business and the elimination of the expense for the System x business from the company s run rate. Without these items, expense and other income would have been up approximately 2 percent. S,G&A expense of $6.0 billion was up 1 percent from the prior-year period and includes the workforce rebalancing charge of approximately $580 million. R,D&E expense of $1.3 billion decreased 9 percent compared with the year-ago period, reflecting the divestiture of the System x business and currency impact. Intellectual property and custom development income decreased to $199 million compared with $201 million a year ago. Other (income) and expense was income of $1.5 billion, including the gain from the divested System x business, compared with prior-year income of $116 million. Interest expense increased to $117 million compared with $113 million in the prior-year period.

Total operating (non-GAAP) expense and other income from continuing operations decreased 20 percent to $5.6 billion compared with the prior-year period, including

the gain from the divestiture of the System x business. Operating (non-GAAP) S,G&A expense increased 1 percent to $5.8 billion compared with the prior-year period and includes the workforce rebalancing charge. Operating (non-GAAP) R,D&E expense of $1.3 billion was down 7 percent compared with the year-ago period, reflecting the divestiture of the System x business and currency impact.

Pre-Tax Income

Pre-tax income from continuing operations was flat year over year at $7.1 billion; pre-tax margin of 29.4 percent was up 3.5 points compared with the prior-year period. Operating (non-GAAP) pre-tax income from continuing operations decreased 2 percent to $7.4 billion and pre-tax margin was 30.7 percent, up 3.0 points, compared to the year-ago period.

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IBM s tax rate from continuing operations was 22.3 percent, up 9.8 points year over year; operating (non-GAAP) tax rate was 21.8 percent, up 9.6 points compared to the year-ago period. The change in the fourth-quarter tax rate is driven by prior year discrete tax items, including benefits from tax audit settlements.

Net income margin from continuing operations increased 0.2 points to 22.9 percent. Total operating (non-GAAP) net income margin from continuing operations decreased 0.3 points to 24.0 percent.

The weighted-average number of diluted common shares outstanding in the fourth-quarter 2014 was 995 million, a decrease of 8 percent compared with the same period of 2013. As of December 31, 2014, there were 991 million basic common shares outstanding.

Debt, including Global Financing, totaled $40.8 billion, compared with $39.7 billion at year-end 2013, and down $4.9 billion from the third quarter of 2014. From a management segment view, Global Financing debt totaled $29.1 billion versus $27.5 billion at year-end 2013, resulting in a debt-to-equity ratio of 7.2 to 1. Core (non-global financing) debt totaled $11.7 billion, a decrease of $0.5 billion since year-end 2013, resulting in a debt-to-capitalization ratio of 59 percent, which includes impacts from retirement plan remeasurement that take into account changes in discount rates and recently released U.S. mortality tables, the announced Microelectronics business divestiture and foreign exchange translation.

IBM ended the fourth-quarter 2014 with $8.5 billion of cash on hand and generated free cash flow of $6.6 billion, excluding Global Financing receivables, down approximately $1.8 billion year over year. In the fourth quarter of 2014, the company returned $1.2 billion to shareholders through $1.1 billion in dividends and $0.1 billion of gross share repurchases.

At the end of December 2014, IBM had approximately $6.3 billion remaining from the current share repurchase authorization.

Full-Year 2014 Results

Net income from continuing operations for the twelve months ended December 31, 2014 was $15.8 billion compared with $16.9 billion in the year-ago period, a decrease of 7 percent. Diluted earnings per share from continuing operations were $15.59, up 2 percent compared to the 2013 period.

The consolidated diluted earnings per share were $11.90 as compared to $14.94 per share in 2013, down 20 percent. Revenues from continuing operations for the twelve-month period totaled $92.8 billion, a decrease of 6 percent (down 1 percent, adjusting for divested businesses and currency) compared with $98.4 billion for the twelve months of 2013.

Full year results include a non-recurring pre-tax charge of $4.7 billion, or $3.4 billion, net of tax. The charge includes an impairment to reflect fair value less estimated costs to sell the Microelectronics manufacturing business assets, which the company has classified as held for sale at December 31, 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.

Operating (non-GAAP) net income from continuing operations for the twelve months ended December 31, 2014 was $16.7 billion compared with $18.4 billion in the year-ago period, a decrease of 9 percent. Operating (non-GAAP) diluted earnings per share from continuing operations were $16.53 compared with $16.64 per diluted share for the 2013 period, a decrease of less than 1 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);
- adjusting for the divestiture of the System x and the customer care outsourcing businesses.

The rationale for management s use of non-GAAP measures is included as part of the supplemental materials presented within the fourth-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 4:30 p.m. EST, today. The Webcast may be accessed via a link at http://www.ibm.com/investor/events/earnings/4q14.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 December 31,			Twelve Months Ended December 31,		
	2014	2013*	Percent Change	2014	2013*	Percent Change
REVENUE						
Global Technology Services	$ 9,167	$ 9,917	-7.6%	$ 37,130	$ 38,551	-3.7%
Gross profit margin	38.5%	38.8%		38.3%	38.1%	
Global Business Services	4,349	4,747	-8.4%	17,825	18,396	-3.1%
Gross profit margin	32.0%	30.7%		30.8%	30.9%	
Software	7,578	8,140	-6.9%	25,434	25,932	-1.9%
Gross profit margin	90.0%	90.5%		88.6%	88.8%	
Systems and Technology	2,406	3,947	-39.0%	9,996	12,988	-23.0%
Gross profit margin	49.6%	42.2%		39.5%	40.8%	
Global Financing	532	534	-0.5%	2,034	2,022	0.6%
Gross profit margin	48.7%	43.3%		49.4%	45.6%	
Other	82	100	-17.7%	374	478	-21.7%
Gross profit margin	-401.7%	-234.8%		-215.0%	-195.6%	
TOTAL REVENUE	24,113	27,385	-11.9%	92,793	98,367	-5.7%
GROSS PROFIT	12,862	14,337	-10.3%	46,407	48,684	-4.7%
Gross profit margin	53.3%	52.4%		50.0%	49.5%	
EXPENSE AND OTHER INCOME						
S,G&A	6,034	5,987	0.8%	23,180	23,451	-1.2%
Expense to revenue	25.0%	21.9%		25.0%	23.8%	
R,D&E	1,320	1,452	-9.1%	5,437	5,743	-5.3%
Expense to revenue	5.5%	5.3%		5.9%	5.8%	
Intellectual property and custom development income	(199)	(201)	-1.2%	(742)	(822)	-9.8%
Other (income) and expense	(1,506)	(116)	NM	(1,938)	(333)	NM
Interest expense	117	113	3.6%	484	402	20.4%
TOTAL EXPENSE AND OTHER INCOME	5,767	7,235	-20.3%	26,421	28,440	-7.1%
Expense to revenue	23.9%	26.4%		28.5%	28.9%	
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	7,094	7,102	-0.1%	19,986	20,244	-1.3%
Pre-tax margin	29.4%	25.9%		21.5%	20.6%	
Provision for income taxes	1,580	885	78.4%	4,234	3,363	25.9%
Effective tax rate	22.3%	12.5%		21.2%	16.6%	
INCOME FROM CONTINUING OPERATIONS	$ 5,515	$ 6,216	-11.3%	$ 15,751	$ 16,881	-6.7%
Net margin	22.9%	22.7%		17.0%	17.2%	
DISCONTINUED OPERATIONS						
Loss from discontinued operations, net of taxes	(31)	(32)		(3,729)	(398)	
NET INCOME	$ 5,484	$ 6,185	-11.3%	$ 12,022	$ 16,483	-27.1%
EARNINGS PER SHARE OF COMMON STOCK:						
ASSUMING DILUTION						
CONTINUING OPERATIONS	$ 5.54	$ 5.76	-3.8%	$ 15.59	$ 15.30	1.9%
DISCOUNTINUED OPERATIONS	$ (0.03)	$ (0.03)		$ (3.69)	$ (0.36)	

TOTAL	$	5.51	$	5.73	-3.8%	$	11.90	$	14.94	-20.3%
BASIC										
CONTINUING OPERATIONS	$	5.57	$	5.80	-4.0%	$	15.68	$	15.42	1.7%
DISCOUNTINUED OPERATIONS	$	(0.03)	$	(0.03)		$	(3.71)	$	(0.36)	
TOTAL	$	5.54	$	5.77	-4.0%	$	11.97	$	15.06	-20.5%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING (M s):										
ASSUMING DILUTION		995.4		1,080.0			1,010.0		1,103.0	
BASIC		990.4		1,072.5			1,004.3		1,094.5	

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

NM = Not Meaningful

INTERNATIONAL BUSINESS MACHINES CORPORATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited)

(Dollars in Millions)	At December 31, 2014	At December 31, 2013
ASSETS:		
Current Assets:		
Cash and cash equivalents	$ 8,476	$ 10,716
Marketable securities	0	350
Notes and accounts receivable - trade (net of allowances of $336 in 2014 and $291 in 2013)	9,090	10,465
Short-term financing receivables (net of allowances of $452 in 2014 and $308 in 2013)	19,835	19,787
Other accounts receivable (net of allowances of $40 in 2014 and $36 in 2013)	2,906	1,584
Inventories, at lower of average cost or market:		
Finished goods	430	444
Work in process and raw materials	1,674	1,866
Total inventories	2,103	2,310
Deferred taxes	2,044	1,651
Prepaid expenses and other current assets	4,967	4,488
Total Current Assets	**49,422**	**51,350**
Property, plant and equipment	39,034	40,475
Less: Accumulated depreciation	28,263	26,654
Property, plant and equipment - net	10,771	13,821
Long-term financing receivables (net of allowances of $126 in 2014 and $80 in 2013)	11,109	12,755
Prepaid pension assets	2,160	5,551
Deferred taxes	4,808	3,051
Goodwill	30,556	31,184
Intangible assets - net	3,104	3,871
Investments and sundry assets	5,603	4,639
Total Assets	**$ 117,532**	**$ 126,223**
LIABILITIES:		
Current Liabilities:		
Taxes	$ 5,084	$ 4,633
Short-term debt	5,731	6,862
Accounts payable	6,864	7,461
Compensation and benefits	4,031	3,893
Deferred income	11,877	12,557
Other accrued expenses and liabilities	6,013	4,748
Total Current Liabilities	**39,600**	**40,154**
Long-term debt	35,073	32,856
Retirement and nonpension postretirement benefit obligations	18,261	16,242
Deferred income	3,691	4,108
Other liabilities	8,892	9,934
Total Liabilities	**105,518**	**103,294**
EQUITY:		
IBM Stockholders Equity:		
Common stock	52,666	51,594
Retained earnings	137,793	130,042
Treasury stock at cost	(150,715)	(137,242)
Accumulated other comprehensive income/(loss)	(27,875)	(21,602)
Total IBM stockholders equity	**11,868**	**22,792**
Noncontrolling interests	146	137
Total Equity	**12,014**	**22,929**

Total Liabilities and Equity	**$**	**117,532**	**$**	**126,223**

INTERNATIONAL BUSINESS MACHINES CORPORATION

CASH FLOW ANALYSIS

(Unaudited)

(Dollars in Millions)	Three Months Ended December 31, 2014	Three Months Ended December 31, 2013	Twelve Months Ended December 31, 2014	Twelve Months Ended December 31, 2013
Net Cash from Operating Activities per GAAP:	**$ 6,059**	**$ 6,528**	**$ 16,868**	**$ 17,485**
Less: the change in Global Financing (GF) Receivables	(1,505)	(2,932)	718	(1,304)
Net Cash from Operating Activities (Excluding GF Receivables)	**7,564**	**9,460**	**16,151**	**18,789**
Capital Expenditures, Net	(976)	(1,059)	(3,779)	(3,768)
Free Cash Flow (Excluding GF Receivables)	**6,588**	**8,401**	**12,372**	**15,021**
Acquisitions	(6)	(495)	(656)	(3,056)
Divestitures	1,869	50	2,357	297
Dividends	(1,089)	(1,025)	(4,265)	(4,058)
Share Repurchase	(132)	(5,797)	(13,679)	(13,859)
Non-GF Debt	(5,883)	1,637	(1,348)	3,193
Other (includes GF Receivables, and GF Debt)	(2,435)	(1,937)	2,629	2,400
Change in Cash, Cash Equivalents and Short-term Marketable Securities	**$ (1,088)**	**$ 834**	**$ (2,589)**	**$ (63)**

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

	FOURTH-QUARTER 2014				
	Revenue			Pre-tax Income/ (Loss)	
(Dollars in Millions)	External	Internal	Total	Continuing Operations	Pre-tax Margin
SEGMENTS					
Global Technology Services	$ 9,167	$ 195	$ 9,362	$ 1,464	15.6%
Y-T-Y change	-7.6%	-25.7%	-8.0%	-26.4%	
Global Business Services	4,349	127	4,476	733	16.4%
Y-T-Y change	-8.4%	-24.9%	-8.9%	-22.0%	
Software	7,578	845	8,422	3,765	44.7%
Y-T-Y change	-6.9%	-3.8%	-6.6%	-11.2%	
Systems and Technology	2,406	107	2,512	388	15.5%
Y-T-Y change	-39.0%	-37.4%	-39.0%	12.2%	
Global Financing	532	588	1,119	526	47.0%
Y-T-Y change	-0.5%	-10.1%	-5.8%	-10.8%	
TOTAL REPORTABLE SEGMENTS	**$ 24,031**	**$ 1,860**	**$ 25,891**	**$ 6,876**	**26.6%**
Y-T-Y change	**-11.9%**	**-12.8%**	**-12.0%**	**-15.2%**	

Eliminations / Other		82		(1,860)		(1,778)		219	
TOTAL IBM CONSOLIDATED	**$**	**24,113**	**$**	**0**	**$**	**24,113**	**$**	**7,094**	**29.4%**
Y-T-Y change		**-11.9%**				**-11.9%**		**-0.1%**	

	FOURTH-QUARTER 2013*				
(Dollars in Millions)	External	Revenue Internal	Total	Pre-tax Income/ (Loss) Continuing Operations	Pre-tax Margin
SEGMENTS					
Global Technology Services	$ 9,917	$ 262	$ 10,179	$ 1,989	19.5%
Global Business Services	4,747	169	4,915	940	19.1%
Software	8,140	878	9,018	4,239	47.0%
Systems and Technology*	3,947	170	4,117	346	8.4%
Global Financing	534	654	1,188	589	49.6%
TOTAL REPORTABLE SEGMENTS	**$ 27,285**	**$ 2,133**	**$ 29,418**	**$ 8,104**	**27.5%**
Eliminations / Other	100	(2,133)	(2,033)	(1,002)	
TOTAL IBM CONSOLIDATED	**$ 27,385**	**$ 0**	**$ 27,385**	**$ 7,102**	**25.9%**

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

INTERNATIONAL BUSINESS MACHINES CORPORATION

SEGMENT DATA

(Unaudited)

	TWELVE-MONTHS 2014				
(Dollars in Millions)	External	Revenue Internal	Total	Pre-tax Income/ (Loss) Continuing Operations	Pre-tax Margin
SEGMENTS					
Global Technology Services	$ 37,130	$ 934	$ 38,063	$ 6,340	16.7%
Y-T-Y change	-3.7%	-12.2%	-3.9%	-9.2%	
Global Business Services	17,825	543	18,367	2,999	16.3%
Y-T-Y change	-3.1%	-24.0%	-3.9%	-6.7%	
Software	25,434	3,496	28,931	10,699	37.0%
Y-T-Y change	-1.9%	9.6%	-0.7%	-3.7%	
Systems and Technology	9,996	647	10,643	34	0.3%
Y-T-Y change	-23.0%	9.2%	-21.6%	-84.1%	
Global Financing	2,034	2,488	4,522	2,189	48.4%
Y-T-Y change	0.6%	9.0%	5.1%	0.8%	
TOTAL REPORTABLE SEGMENTS	**$ 92,418**	**$ 8,108**	**$ 100,527**	**$ 22,262**	**22.1%**
Y-T-Y change	**-5.6%**	**3.4%**	**-4.9%**	**-6.0%**	
Eliminations / Other	374	(8,108)	(7,734)	(2,276)	
TOTAL IBM CONSOLIDATED	**$ 92,793**	**$ 0**	**$ 92,793**	**$ 19,986**	**21.5%**
Y-T-Y change	**-5.7%**		**-5.7%**	**-1.3%**	

	TWELVE-MONTHS 2013*				
(Dollars in Millions)	External	Revenue Internal	Total	Pre-tax Income (Loss)/ Continuing Operations	Pre-tax Margin
SEGMENTS					
Global Technology Services	$ 38,551	$ 1,063	$ 39,615	$ 6,983	17.6%
Global Business Services	18,396	714	19,109	3,214	16.8%
Software	25,932	3,191	29,123	11,106	38.1%
Systems and Technology*	12,988	593	13,581	213	1.6%
Global Financing	2,022	2,282	4,304	2,171	50.4%
TOTAL REPORTABLE SEGMENTS	**$ 97,889**	**$ 7,843**	**$ 105,732**	**$ 23,687**	**22.4%**
Eliminations / Other	478	(7,843)	(7,365)	(3,443)	
TOTAL IBM CONSOLIDATED	**$ 98,367**	**$ 0**	**$ 98,367**	**$ 20,244**	**20.6%**

*** 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)

	FOURTH-QUARTER 2014			
	CONTINUING OPERATIONS			
	GAAP	Acquisition-Related Adjustments*	Retirement-Related Adjustments**	Operating (Non-GAAP)
Gross Profit	$ 12,862	$ 101	$ 33	$ 12,996
Gross Profit Margin	53.3%	0.4Pts	0.1Pts	53.9%
S,G&A	6,034	(94)	(95)	5,845
R,D&E	1,320		21	1,341
Other (Income) & Expense	(1,506)	(1)		(1,506)
Total Expense & Other (Income)	5,767	(95)	(74)	5,598
Pre-Tax Income from Continuing Operations	7,094	196	107	7,398
Pre-Tax Income Margin from Continuing Operations	29.4%	0.8Pts	0.4Pts	30.7%
Provision for Income Taxes* **	1,580	10	24	1,613
Effective Tax Rate	22.3%	-0.5Pts	0.0Pts	21.8%
Income from Continuing Operations	5,515	186	84	5,785
Income Margin from Continuing Operations	22.9%	0.8Pts	0.3Pts	24.0%
Loss from Discontinued Operations Net of Taxes	(31)			(31)
Net Income	5,484	186	84	5,753
Diluted Earnings Per Share:				
Continuing Operations	$ 5.54	$ 0.19	$ 0.08	$ 5.81
Discontinued Operations	$ (0.03)			$ (0.03)

	FOURTH-QUARTER 2013****			
	CONTINUING OPERATIONS			
	GAAP	Acquisition-Related Adjustments*	Retirement-Related Adjustments**	Operating (Non-GAAP)
Gross Profit	$ 14,337	$ 105	$ 154	$ 14,596
Gross Profit Margin	52.4%	0.4Pts	0.6Pts	53.3%
S,G&A	5,987	(101)	(90)	5,796
R,D&E	1,452		(14)	1,438
Other (Income) & Expense	(116)	(8)		(124)
Total Expense & Other (Income)	7,235	(109)	(104)	7,023
Pre-Tax Income from Continuing Operations	7,102	213	258	7,574
Pre-Tax Income Margin from Continuing Operations	25.9%	0.8Pts	0.9Pts	27.7%
Provision for Income Taxes* **	885	(55)	94	925
Effective Tax Rate	12.5%	-1.1Pts	0.8Pts	12.2%
Income from Continuing Operations	6,216	268	164	6,649
Income Margin from Continuing Operations	22.7%	1.0Pts	0.6Pts	24.3%
Loss from Discontinued Operations Net of Taxes	(32)			(32)
Net Income	6,185	268	164	6,617
Diluted Earnings Per Share:				
Continuing Operations	$ 5.76	$ 0.25	$ 0.15	$ 6.16
Discontinued Operations	$ (0.03)			$ (0.03)

*** 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)

	TWELVE-MONTHS 2014			
	CONTINUING OPERATIONS			
	GAAP	Acquisition-Related Adjustments*	Retirement-Related Adjustments**	Operating (Non-GAAP)
Gross Profit	$ 46,407	$ 416	$ 173	$ 46,996
Gross Profit Margin	50.0%	0.4Pts	0.2Pts	50.6%
S,G&A	23,180	(385)	(257)	22,537
R,D&E	5,437		77	5,514
Other (Income) & Expense	(1,938)	(1)		(1,939)
Total Expense & Other (Income)	26,421	(386)	(180)	25,855
Pre-Tax Income from Continuing Operations	19,986	803	353	21,142
Pre-Tax Income Margin from Continuing Operations	21.5%	0.9Pts	0.4Pts	22.8%
Provision for Income Taxes* **	4,234	133	73	4,440
Effective Tax Rate	21.2%	-0.2Pts	0.0Pts	21.0%
Income from Continuing Operations	15,751	670	280	16,702
Income Margin from Continuing Operations	17.0%	0.7Pts	0.3Pts	18.0%
Loss from Discontinued Operations Net of Taxes	(3,729)			(3,729)
Net Income	12,022	670	280	12,973
Diluted Earnings Per Share:				
Continuing Operations	$ 15.59	$ 0.66	$ 0.28	$ 16.53
Discontinued Operations	$ (3.69)			$ (3.69)

	TWELVE-MONTHS 2013****			
	CONTINUING OPERATIONS			
	GAAP	Acquisition-Related Adjustments*	Retirement-Related Adjustments**	Operating (Non-GAAP)
Gross Profit	$ 48,684	$ 394	$ 629	$ 49,706
Gross Profit Margin	49.5%	0.4Pts	0.6Pts	50.5%
S,G&A	23,451	(394)	(376)	22,680
R,D&E	5,743		(57)	5,686
Other (Income) & Expense	(333)	(16)		(349)
Total Expense & Other (Income)	28,440	(410)	(433)	27,597
Pre-Tax Income from Continuing Operations	20,244	804	1,062	22,110
Pre-Tax Income Margin from Continuing Operations	20.6%	0.8Pts	1.1Pts	22.5%
Provision for Income Taxes* **	3,363	57	333	3,753
Effective Tax Rate	16.6%	-0.4Pts	0.7Pts	17.0%
Income from Continuing Operations	16,881	747	729	18,356
Income Margin from Continuing Operations	17.2%	0.8Pts	0.7Pts	18.7%
Loss from Discontinued Operations Net of Taxes	(398)			(398)
Net Income	16,483	747	729	17,959
Diluted Earnings Per Share:				
Continuing Operations	$ 15.30	$ 0.68	$ 0.66	$ 16.64
Discontinued Operations	$ (0.36)			$ (0.36)

*** 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